

Docket:	:	<u>A.06-07-021</u>
Exhibit Number	:	<u> </u>
Commissioner	:	<u>John Bohn</u>
Admin. Law Judge	:	<u>Christine Walwyn</u>
DRA Project Mgr.	:	<u>Yoke Chan</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE
RESULTS OF OPERATIONS
IN SELMA DISTRICT
OF
CALIFORNIA WATER SERVICE COMPANY
Test Year 2007-2008 and
Escalation Years 2008-2009 and 2009-2010
Application 06-07-021**

For authority to increase water rates located in its
Selma District serving City of
Selma and vicinity, Fresno County.

San Francisco, California
December 8, 2006

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1 **MEMORANDUM**

2

3 The Division of Ratepayer Advocates (“DRA”) of the California Public
4 Utilities Commission (“Commission”) prepared this report in the California Water
5 Service Company’s (“CWS”) rate case proceeding A.06-07-021 rate case
6 proceeding. In this docket, the Applicant requests an order for authorization to
7 increase rates charged for water service by \$ 170,000 or 5.9% in fiscal year 2007-
8 2008; by \$180,000 or 5.9% in fiscal year 2008-2009; and by \$190,600 or 5.9% in
9 fiscal year 2009-2010 in its Selma District service area. DRA presents its analysis
10 and recommendations associated with the applicant’s request.

11 Yoke Chan serves as DRA’s project coordinator in this review and is
12 responsible for the overall coordination in the preparation of this report. DRA’s
13 witnesses’ prepared qualifications and testimony are contained in Appendix A of
14 this report.

15 DRA’s legal counsel for this case is Selina Shek.

16 DRA’s recommendation on Cost of Capital is discussed in a separate
17 report.

EXECUTIVE SUMMARY

CWS requested an increase of 5.9% in Test Year 2007-08 and 5.9% in Escalation Year 2008-09, whereas DRA recommends an increase of 3.3% in Test Year 2007-08 and inflationary increases for the Escalation Years.

Key Recommendations

DRA's recommendations are based on lower sales for industrial customers and lower number of residential customers (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), higher expenses of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.78% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In addition, DRA recommends the following treatment to CWS' Special Requests as discussed further in chapter 12:

(a) Water Quality

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA reviews CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

(b) Water Revenue Adjustment Mechanism

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

1 (c) Filing an offset rate increase in 2008 to reflect the General
2 Office allocation adopted in CWS' 2007 GRC

3 CWS requests authorization to file an offset rate increase in 2008 to reflect
4 the general office allocation adopted in its 2007 general rate case filing. This was
5 excluded in the scope of this proceeding.

6 (d) An early ex parte order to update Rule 15

7 CWS requests an early ex parte order to update Rule 15 to increase the
8 water supply special facilities fee in this district. DRA recommends the lot fee be
9 increased from CWS' proposed \$1,000 to \$2,310.

10 (e) To amortize all balancing and memorandum accounts

11 CWS requests an authority to amortize all balancing and memorandum
12 account balances in this district. DRA agrees that all balancing and memorandum
13 accounts should be amortized.

14 (f) Authority to phase in revenue requirement over the 3 year rate
15 case cycle

16 CWS requests to phase-in their requested rate increase over the three-year
17 rate case cycle. DRA does not agree with the need to phase-in rates because
18 DRA's proposed increase is only 3.3% and a phased-in rate increase would not be
19 necessary nor justified.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Utility Plant in Service	Clement Lan
8	Depreciation Reserve and Depreciation Expenses	Joyce Steingass
9	Rate Base	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Lan, Chan, Thompson, Canova
13	Escalation Year Increases	Yoke Chan

1 **CHAPTER 1: OVERVIEW AND POLICY**

2 **A. INTRODUCTION**

3 This report sets forth the analysis and recommendations of DRA pertaining
4 to A. 06-07-021, CWS’ general rate increase request for Test Year 2007-2008 and
5 Escalation Years 2008-2009 and 2009-2010.

6 **B. SUMMARY OF RECOMMENDATIONS**

7 Tables 1-1 through 1-3 of the Summary of Earnings compare the results of
8 operations for the Test Year 2007-2008 including revenues, expenses, taxes and
9 ratebase.

10 **C. DISCUSSION**

11 The total revenues requested by CWS are as follows:

12 Year Amount of Increase Percent

13 2007-2008 \$ 170,000 5.9%

14 2008-2009 \$ 180,000 5.9%

15 2009-2010 \$ 190,000 5.9%

16 CWS estimates that its proposed rates in the application will produce
17 revenues providing the following returns:

18 Year Return on Rate Base Return on Equity

19 2007-2008 9.89% 12.37%

20 2008-2009 9.89% 12.37%

21 2009-2010 9.89% 12.37%

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TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS	
	Estimate	Estimate	exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	2,773.2	2,879.4	106.2	3.8%
Operating expenses:				
Operation & Maintenance	938.0	1,014.3	76.3	8.1%
Administrative & General	188.8	182.8	(6.0)	-3.2%
G. O. Prorated Expense	558.2	589.5	31.3	5.6%
Dep'n & Amortization	329.2	377.6	48.4	14.7%
Taxes other than income	89.8	113.2	23.4	26.1%
State Corp. Franchise Tax	22.1	(3.4)	(25.6)	-115.5%
Federal Income Tax	181.3	108.0	(73.3)	-40.4%
Total operating exp.	2,307.5	2,382.0	74.6	3.2%
Net operating revenue	465.7	497.4	31.6	6.8%
Rate base	6,227.2	10,865.5	4,638.3	74.5%
Return on rate base	7.48%	4.58%	-2.90%	-38.8%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
(Thousands of \$)				
Operating revenues	3,752.4	3,898.4	146.0	3.9%
Operating expenses:				
Operation & Maintenance	940.7	1,017.1	76.4	8.1%
Administrative & General	188.8	182.8	(6.0)	-3.2%
G. O. Prorated Expense	558.2	589.5	31.3	5.6%
Dep'n & Amortization	329.2	377.6	48.4	14.7%
Taxes other than income	89.8	113.2	23.4	26.1%
State Corp. Franchise Tax	108.5	86.4	(22.0)	-20.3%
Federal Income Tax	516.6	457.2	(59.4)	-11.5%
Total operating exp.	2,731.7	2,823.8	92.1	3.4%
Net operating revenue	1,020.7	1,074.6	53.9	5.3%
Rate base	6,227.2	10,865.5	4,638.3	74.5%
Return on rate base	16.39%	9.89%	-6.50%	-39.7%

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TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
(Thousands of \$)				
Operating revenues	2,773.2	2,864.5	91.3	3.3%
Operating expenses:				
Operation & Maintenance	938.0	938.3	0.2	0.0%
Administrative & General	188.8	188.8	0.0	0.0%
G. O. Prorated Expense	558.2	558.2	0.0	0.0%
Dep'n & Amortization	329.2	329.2	0.0	0.0%
Taxes other than income	89.8	89.8	0.0	0.0%
State Corp. Franchise Tax	22.1	30.2	8.0	36.4%
Federal Income Tax	181.3	213.2	31.9	17.6%
Total operating exp.	2,307.5	2,347.6	40.2	1.7%
Net operating revenue	465.7	516.9	51.1	11.0%
Rate base	6,227.2	6,227.2	0.0	0.0%
Return on rate base	7.48%	8.30%	0.82%	11.0%

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CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' Selma District. DRA analyzed CWS' report, supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

Table 2-A Summary of Projected Consumption and Revenues

	<u>DRA</u>		<u>CWS</u>		<u>CWS Exceeds DRA</u>	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Total Operating Revenues (\$000)						
Present Rates	2,773.2	2,826.6	2,879.4	2,983.5	160.2	156.9
Utility Proposed Rates	3,752.4	3,886.9	3,898.4	4,114.5	146.0	227.6
Average Number of Customers						
Metered	3,434	3,587	3,734	4,037	300.0	450.0
Flat and Fire Protection	2,838	2,835	2,838	2,835	0.0	0.0
Water Sales By Customer Class (Kccf/yr)						
Residential	869.2	915.9	962.6	1,056.1	93.4	140.2
Business	333.9	333.9	333.9	333.9	0.0	0.0
Multi-Family	183.0	183.0	183.0	183.0	0.0	0.0
Industrial	30.5	30.5	38.2	53.6	7.7	23.1
Public Authority	128.0	128.0	128.0	128.0	0.0	0.0
Other	40.6	40.6	40.6	40.6	0.0	0.0
Water Sales Per Average Customer (CCF/Connection/Year)						
Residential	311.4	311.4	311.4	311.4	0.0	0.0
Business	711.9	711.9	711.9	711.9	0.0	0.0
Multi-Family	4,463.1	4,463.1	4,463.1	4,463.1	0.0	0.0
Industrial	1,792.6	1,792.6	2,247.1	2,247.1	454.5	454.5
Public Authority	1,242.7	1,242.7	1,242.7	1,242.7	0.0	0.0
Other	3,123.1	3,123.1	3,123.1	3,123.1	0.0	0.0

B. SUMMARY OF RECOMMENDATIONS

1) Number of Customers

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors. DRA accepts CWS' estimates for customers numbers in each customer class except residential. DRA disagrees with CWS' estimated growth of 300 new residential customers projected for each of the next three years. DRA's estimate of 150 new customers is based on a five-year average and the state wide slow down in new home sales. DRA recommends the Commission accept DRA's new customer projections as shown in Tables 2-2 and 2-3.

2) Operating Revenues

DRA reviewed CWS' revenue forecasting methodology. DRA's lower growth projection for new residential connections effects estimated sales and gives a more reasonable forecast for residential revenues. DRA agrees with the other customer class revenue forecasts. DRA recommends the Commission accept DRA's estimated revenues shown in Tables 2-6 and 2-7 for Fiscal Test Year and Escalation Year.

3) Consumption

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the date to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. It is consistent with Commission practice to remove the first four inches of rainfall. This adjustment is necessary because, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views ("E-Views") to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per

customer is now standard practice and is consistent with the “New Committee Method” recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances, where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

While preparing its estimates, DRA reviewed and confirmed CWS’ models and forecasts. DRA accepts CWS’ general forecasting methodology. DRA’s and CWS’ estimates are generally derived from the average-use-per connection forecasted for 2006 and then incorporated customer growth in 2007 and 2008. These forecasts are then averaged to derive the fiscal Test Year estimates for 2007-08, and the Escalation Fiscal Year 2008-09. Detailed discussions of the forecasts are below.

4) Unaccounted For Water (UFW)

CWS used a five-year average unaccounted for water percentage of 8.00%. DRA finds this reasonable and recommends the Commission adopt this percentage.

C. DISCUSSION

1) Number of Customers

DRA’s and CWS’ customer forecasts are shown in Table 2-A above. DRA does not agree with CWS’ projected growth in new residential connections of 300 each year for 2006, 2007 and 2008. DRA used a five-year average of 150 new residential customers each year. In CWS’ response to data request ALC-2 states there has been 94 new residential connections as of the end of August 2006. This number annualized equals 140 which is close to the five-year average of 150. The City of Selma’s web site lists the new residential dwelling units and duplex family

1 units for the past 25 years. The total for 2006, as of the end of September, is 75.
2 When this number is annualized it is 100 new units. This is still significantly under
3 the 300 CWS projects for 2006.

4 CWS says the estimated increase in customer growth is due to subdivisions
5 in progress in the service area. However, there is a much publicized slow down in
6 home sales across California and Fresno County has also been affected. This slow
7 down will certainly decrease the number of home sales and new connections in the
8 small towns as well. DRA agrees with CWS' customer numbers in the other
9 customer classes. See the comparison of CWS and DRA number of customers in
10 Tables 2-2 and 2-3.

11 **2) Operating Revenues**

12 Revenues requested by CWS and recommended by DRA based on the
13 present and proposed rates are shown above in Table 2-A, and at the end of the
14 Chapter in Tables 2-6 and 2-7. DRA concurs with CWS' revenue estimates for all
15 customer classes except residential and industrial. CWS' industrial customer class
16 estimates are slightly different than DRA's due to a work paper error corrected in
17 DRA estimate. DRA's estimated revenues for residential class are based on lower
18 customer growth than CWS, which results in lower revenues estimates.

19 **3) Consumption**

20 DRA reviewed CWS' forecasts and developed its forecasts utilizing the
21 same set of historical data. DRA used an E-Views forecast where the statistics
22 indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near
23 2.00, and significant t-statistics) from using an E-Views model. In other instances,
24 DRA used an average of historical consumption similar to how CWS developed its
25 forecast. DRA's and CWS' forecasts are shown in Table 2-A above and at the end
26 of the Chapter in Table 2-1.

1 The basic forecast equation starts with a constant term, a temperature
2 variable, a rain variable, and a time variable. Depending on the statistics generated
3 by this simple model adjustments may be made to the model to provide a superior
4 estimate. Some of the modifications may include substituting the individual
5 monthly temperature variables, including an autoregressive term, or including a
6 dummy variable. Specific forecasts are discussed below.

7 (a) Residential

8 The results from the E-Views equation did not yield satisfactory statistics to
9 forecast residential consumption so the model was not used. DRA and CWS
10 observed that the results were too low and did not fairly represent future water
11 sales potential for this customer class. A five-year average calculation of historic
12 consumption for metered sales per customer gives a better representation. DRA
13 agrees with CWS' method of forecasting residential consumption.

14 However, because DRA and CWS projected different customer growth,
15 the annual sales projections are different. CWS calculated annual residential water
16 sales by multiplying the projected consumption per customer in hundreds of cubic
17 feet (CCF) by the projected number of customers, then divided by one thousand to
18 convert to thousand cubic feet (Kccf). CWS' forecast result of 311.4 Ccf per
19 customer is multiplied by the average number of customers per year to estimate
20 the total metered sales for 2006, 2007, and 2008. CWS used an average of the
21 2007 and 2008 estimates to estimate the 2007-08 fiscal Test Year sales of 962.6
22 Kccf. DRA used the same methodology to estimate 311.4 Ccf. This is converted
23 to 869.2 Kccf total water sales per year for residential customer class because
24 DRA used a small average number of customers as shown in Tables 2-4 and 2-5.

1 (b) Business

2 DRA used the same forecast method as CWS. The E-Views equation
3 included a constant term, a rain variable, twelve temperature variables
4 (representing each month), an autoregressive term, and a time variable. This
5 produced satisfactory statistics so CWS used the E-Views forecast. DRA agrees
6 with CWS' resulting forecast of 711.9 Ccfs per connection per year. This
7 consumption is multiplied by the average number of customers then divided by
8 one thousand to derive the Total Metered Sales of 333.9 Kccf per year for Fiscal
9 Test Year 2007-08.

10 (c) Multifamily

11 DRA used the same forecast method as CWS. The E-Views equation
12 included a constant term, twelve temperature variables (representing each month),
13 a time variable, an autoregressive term, and a dummy variable to remove a data
14 point error. DRA concurs with CWS' forecast of 4,463.1 Ccfs per connection per
15 year and the calculated Total Metered Sales of 183.0 Kccfs per year for the Fiscal
16 Test Year of 2007-08.

17 (d) Industrial

18 DRA used the same forecast method as CWS. The E-Views equation
19 included a constant term, a rain variable, eight temperature variables (January,
20 February, March and December were removed due to error terms), a time variable,
21 and an autoregressive term. CWS' forecast is 38.2 Kccfs for total consumption
22 per year. This then calculates to 2,247.1 Ccf per average customer by dividing the
23 Kccfs by the average number of customers and multiplying by one thousand. DRA
24 agrees with CWS' methodology but has different results due to a CWS error. DRA
25 corrected a linking error in CWS' work paper link from Table 4-D2 to Table 4-D –
26 Total Metered Sales. This correction resulted in a lower consumption amount for

1 this class. DRA used the corrected number to forecast annual sales total of 30.5
2 Kccfs, which then calculated to 1,792.6 Ccf consumption per connection per year
3 for Fiscal Test Year 2007-08. DRA's forecast is correct and the Commission
4 should adopt the correct forecast.

5 (e) Public Authority

6 DRA used the same forecast method as CWS. The E-Views equation
7 contained a constant term, a rain variable, twelve temperature variables (for each
8 month), and a time variable. DRA concurs with CWS' forecast of 128.0 Kccfs for
9 total annual sales. To calculate the consumption per customer the Ccfs are divided
10 by the average number of customers, then multiplied by 1000 to derive 1,242.7
11 Ccf consumption per customer per year for Fiscal Test Year 2007-08. DRA finds
12 this reasonable and agrees with CWS' forecast.

13 (f) Other

14 CWS did not use the E-Views modeling for Other customer class.
15 Historical data shows a significant difference in sales for the last two years
16 compared to previous years. The best method to estimate is to use the average of
17 the last two years, 2004 to 2005. This results in 40.6 Kccfs per total sales. By
18 dividing the total sales by the average number of customer then multiplying by
19 1000 the forecast of 3,123.1 Ccfs per customer per year is calculated for Fiscal
20 Test Year 2007-08. DRA concurs with is forecasting method and the results.

21 **4) Unaccounted For Water (UFW)**

22 More than half of the residential customers are flat rate customers in Selma
23 District. The actual amount of UFW cannot be accurately measured and projected.
24 UFW includes leakage of water from the system prior to sale and water used for
25 system flushing and maintenance. CWS estimates 8.00% for unaccounted for

1 water based on a five-year average and historic trend. DRA agrees with this
2 estimation.

3 **5) Total Water Consumption and Supply**

4 Total water consumption is the sum of metered and un-metered sales and
5 unaccounted for water. In Selma District about have of its residential customers
6 are flat rate customers, and there are some private and public fire protection un-
7 metered customers. The only water supply is company owned groundwater wells.
8 The total consumption and water supply levels for the Test Year and Escalation
9 Year are shown in Tables 2-4 and 2-5.

10 **D. CONCLUSION**

11 **1) Number of Customers**

12 DRA concurs with CWS' estimated number of customers in all customer
13 classes except residential class. DRA's estimate in new customer growth is one
14 half of CWS' projected growth and is based on a 5-year average and a slow down
15 of new home sales. DRA recommends adoption of DRA's customer number
16 estimates as shown in Tables 2-2 and 2-3.

17 **2) Operating Revenues**

18 DRA finds CWS' revenue forecast reasonable except for residential and
19 industrial. DRA recommends the Commission adopt DRA's revenue forecasts
20 shown in Tables 2-6 and 2-7.

21 **3) Consumption**

22 DRA finds CWS' forecasts of consumption reasonable with the exception
23 of residential and industrial and recommends the Commission adopt DRA's
24 numbers shown in Table 2-1.

1 **4) Unaccounted For Water**

2 DRA finds CWS' five-year average percentage UFW of 8% UFW

3 reasonable and it should be adopted.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(CCF/CONN./YR)				
Residential	311.4	311.4	(0.0)	0.0%
Business	711.9	711.9	0.0	0.0%
Multiple Family	4,463.1	4,463.1	0.0	0.0%
Industrial	1,792.6	2,247.1	454.5	0.0%
Public Authority	1,242.7	1,242.7	0.0	0.0%
Other	3,123.1	3,123.1	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%

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TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	2,791	3,091	300	10.7%
Business	469	469	0	0.0%
Multiple Family	41	41	0	0.0%
Industrial	17	17	0	0.0%
Public Authority	103	103	0	0.0%
Other	13	13	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	3,434	3,734	300	8.7%
<u>Flat Rate Connections</u>				
Residential Flat	2,760	2,760	0	0.0%
Private Fire Protection	70	70	0	0.0%
Public Fire Protection	8	8	0	0.0%
Total flat rate connections	2,838	2,838	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	6,272	6,572	300	4.8%
Exclude Fire Protection	6,194	6,494	300	4.8%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	2,941	3,391	450	15.3%
Business	469	469	0	0.0%
Multiple Family	41	41	0	0.0%
Industrial	17	17	0	0.0%
Public Authority	105	105	0	0.0%
Other	14	14	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	3,587	4,037	450	12.5%
<u>Flat Rate Connections</u>				
Residential Flat	2,756	2,756	0	0.0%
Private Fire Protection	71	71	0	0.0%
Public Fire Protection	8	8	0	0.0%
Total flat rate connections	2,835	2,835	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	6,422	6,872	450	7.0%
Exclude Fire Protection	6,343	6,793	450	7.1%

TABLE 2-4
CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	869.2	962.6	93.4	10.7%
Business	333.9	333.9	0.0	0.0%
Multiple Family	183.0	183.0	0.0	0.0%
Industrial	30.5	38.2	7.7	25.4%
Public Authority	128.0	128.0	0.0	0.0%
Other	40.6	40.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	1,585.2	1,686.3	101.1	6.4%
<u>Flat Rate Sales</u>				
Residential	1,354.5	1,354.5	0.0	0.0%
Unaccounted For Water 8.00%	255.6	264.4	8.8	3.4%
Total delivered	3,195.3	3,305.2	109.9	3.4%
<u>Supply</u>				
Company Wells	3,195.3	3,305.1	109.8	3.4%
Total production	3,195.3	3,305.1	109.8	3.4%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	915.9	1,056.1	140.2	15.3%
Business	333.9	333.9	0.0	0.0%
Multiple Family	183.0	183.0	0.0	0.0%
Industrial	30.5	53.6	23.1	75.7%
Public Authority	128.0	128.0	0.0	0.0%
Other	40.6	40.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total metered sales	1,631.9	1,795.2	163.3	10.0%
<u>Flat Rate Sales</u>				
Residential	1,354.5	1,354.5	0.0	0.0%
Unaccounted For Water 8.00%	259.7	273.9	14.2	5.5%
<hr/>				
Total delivered	3,246.1	3,423.6	177.5	5.5%
 <u>Supply</u>				
Company Wells	3,246.1	3,423.4	177.3	5.5%
<hr/>				
Total production	3,246.1	3,423.4	177.3	5.5%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	941.3	1,042.5	101.2	10.8%
Business	332.6	332.6	0.0	0.0%
Multiple Family	142.0	142.0	0.0	0.0%
Industrial	27.6	32.5	4.9	17.8%
Public Authority	118.4	118.4	0.0	0.0%
Other	34.3	34.3	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total General Metered	1,596.2	1,702.3	106.1	6.6%
<u>Flat Rate Revenues</u>				
Residential Flat	1,115.8	1,115.8	0.0	0.0%
Private Fire Protection	31.4	31.4	0.0	0.0%
Public Fire Protection	3.5	3.5	0.0	0.0%
Other	7.8	7.8	0.0	0.0%
<hr/>				
Total Flat Rate	1,158.5	1,158.6	0.1	0.0%
Deferred Revenues	18.5	18.5	0.0	0.0%
Total revenues	2,773.2	2,879.4	106.2	3.8%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	1,305.5	1,445.7	140.2	10.7%
Business	452.9	452.9	0.0	0.0%
Multiple Family	179.5	179.5	0.0	0.0%
Industrial	36.5	42.3	5.8	15.9%
Public Authority	158.2	158.2	0.0	0.0%
Other	44.7	44.7	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total General Metered	2,177.3	2,323.3	146.0	6.7%
<u>Flat Rate Revenues</u>				
Residential Flat	1,510.4	1,510.4	0.0	0.0%
Private Fire Protection	34.0	34.0	0.0	0.0%
Public Fire Protection	3.8	3.8	0.0	0.0%
Other	8.4	8.4	0.0	0.0%
<hr/>				
Total Flat Rate	1,556.6	1,556.6	0.0	0.0%
Deferred Revenues	18.5	18.5	0.0	0.0%
Total revenues	3,752.4	3,898.4	146.0	3.9%

CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on Operation and Maintenance (O&M) expenses in the Selma District of California Water Service Company (CWS). Table 3-1 compared in detail DRA's and CWS O&M estimates for the Fiscal Year 2007-2008. All DRA's estimates are in Nominal Dollars. A comparison of total expense estimates at present rates for these years is shown in Table 3-A:

Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's and CWS' O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009.

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	Utility Exceeds DRA Fiscal 2007-2008
\$938,000	\$1,014,300	\$952,200	\$1,037,400	\$76,300 8.1%	\$85,200 9.0%

DRA's analyses of CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 include the following analyses as listed below—[(1) through (6)]--of CWS recorded historical expense trends (2000-2005) and CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using estimates from 2006, 2007 and 2008.

(1) A 5-Year Regression Analysis (2001-2005)

(2) A 3-Year Regression Analysis (2003-2005)

(3) 5-Year Averages (2001-2005)

(4) 3-Year Averages (2003-2005)

(5) Last Year Recorded 2005

1 (6) Annualization of the Last 8-months of recorded data (January 2006-August
2 2006).

3 DRA selected the methodology that best fits CWS recorded historical
4 expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-
5 2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

6 The inflation factors used by DRA are recommended by the Commission's
7 DRA Energy Cost of Service Branch (ECOS), which has traditionally handled
8 inflation issues for the Commissions. These factors were provided in a
9 Memorandum from ECOS dated August 31, 2006. The Labor escalation factors
10 are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor
11 escalation factors are generated from a composite index of 10 Wholesale Price
12 Indexes for material and supply expenses, and the CPI-U weighted 5% for services
13 and consumer related items. The 60/40 factor is a composite index derived from
14 weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour
15 Index. These indices are derived from the monthly DRI-WEFA publication, "U.S.
16 Economic Outlook." The above indices and weightings are in conformance with
17 an agreement reached between the Commission's Water Division and the
18 California Water Association under the new rate case plan adopted in D.04-06-
19 018.

20 **B. SUMMARY OF RECOMMENDATIONS**

21 DRA conducted independent analyses of CWS work papers and methods of
22 estimating the Operating and Maintenance expenses for the Fiscal Year 2007-2008
23 and the Fiscal Year 2008-2009. With the exception of purchased water and power,
24 payroll, purchased chemical, postage and conservation; CWS used a 5-year
25 average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008
26 and the Fiscal Year 2008-2009 expenses.

1 DRA used alternative projection methods which were then compared with
2 CWS projections and its historical operations. DRA projections are identified in
3 Table 3-1 at the end of this Chapter. DRA estimated \$938,000 and \$952,200 for
4 Fiscal Year 2007-2008 and Fiscal Year 2008-2009 expenses respectively. The
5 methodologies used by DRA are discussed in the following sections. DRA
6 recommends that the Commission adopts its O&M numbers as reasonable. Ref.
7 Table 3-B.

8 **Table 3-B: Escalation Factors**

Year	Compensation per hour Non-farm rate		Inflation Rates (%)				Composite Rates % 40/60 Split	
	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non- Labor	Labor	Non- Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

1 **C. DISCUSSION**

2 **1) PURCHASED WATER**

3 CWS does not have purchased water expense.

4 **2) REPLENISHMENT ASSESSMENT**

5 CWS has no replenishment assessment fees.

6 **3) PRODUCED WATER: GROUND WATER**
7 **EXTRACTION CHARGES**

8 CWS estimated ground water fees in the Selma District by applying the
9 most recent extraction rates multiplied by the projected ground water production.
10 If Replenishment Assessment expenses change outside of the rate case process,
11 CWS uses the Commission's "offset" process to change water rates. CWS
12 estimated \$13,600 and \$13,600 for the Fiscal Year 2007-2008 and Fiscal Year
13 2008-2009 respectively.

14 DRA accepts CWS' estimates of \$13,600 and \$13,600 for the Fiscal Year
15 2007-2008 and Fiscal Year 2008-2009 respectively.

16 **4) PURCHASED POWER**

17 Purchased power is the cost of electricity needed to operate a district,
18 including the power used in pumping and delivering water. The estimate of
19 purchased power varies from year to year, and month to month based on
20 differences in local demand, maintenance schedules, and other operational
21 considerations such as the quality of water delivered. This calculation also takes
22 into account the historical ratio of electricity used to the amount of water pumped.

23 CWS estimates of purchased power costs per production unit were based on
24 usage patterns of each production component, using a model of power cost per
25 kilowatt-hour at various levels of production. CWS' model estimates costs per

1 kilowatt-hour at current rates (Pacific Gas and Electric Company schedules
2 effective May1, 2006) using the historical average of kilowatt-hours per unit of
3 production and the last three years of recorded data (2003-2005). Because fixed
4 components of the bill are spread over more units of production, the costs per
5 kilowatt-hour generally decline with increasing uses. When the data (kilowatt-
6 hour) used show a specific pattern, CWS uses a forecast methodology to predict
7 estimated power cost from the estimated kilowatt-hour demand. If no specific
8 patterns are observed, CWS uses an average such as a 5-year average.

9 For Selma District the last 3-years of data show a poor relationship between
10 power consumption and average power cost; therefore CWS used the average unit
11 power cost to forecast well power costs. The model average output is \$0.1355 per
12 kilowatt-hour.

13 CWS estimated \$351,400 and \$361,400 for the Fiscal Year 2007-2008 and
14 Fiscal Year 2008-2009 respectively.

15 DRA accept CWS' estimates of \$351,400 and \$361,400 for the Fiscal Year
16 2007-2008 and Fiscal Year 2008-2009 respectively

17 **5) PURCHASED CHEMICAL**

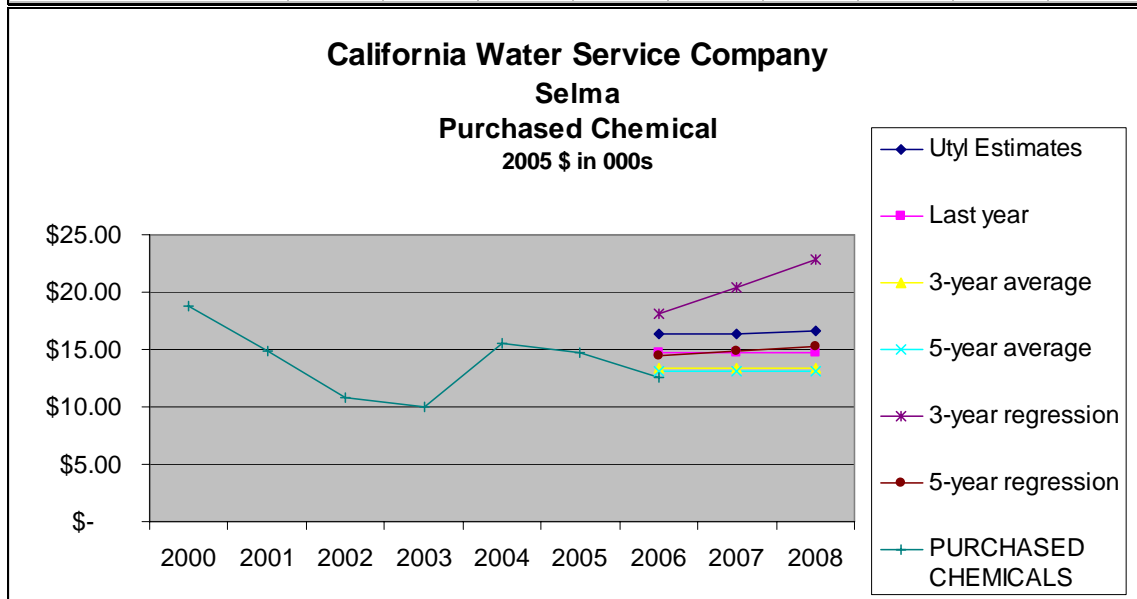
18 CWS Purchased Chemical expenses are a function annual water
19 productions and the cost of chemical. CWS' estimates are based on the cost per
20 unit of production multiplied by the test year production forecasts. CWS estimated
21 expenses are \$17,600 for Fiscal Year 2007-2008 and \$18,300 for Fiscal Year
22 2008-2009 respectively.

23 DRA estimated \$16,100 for Fiscal Year 2007-2008 and \$16,400 for the
24 Fiscal Year 2008-2009. DRA used last year's (2005) recorded amount adjusted for
25 inflation. Reference Table 3-C.

DRA ask that its estimates of \$16,100 for Fiscal Year 2007-2008 and \$16,400 for the Fiscal Year 2008-2009 be accepted.

Table 3-C: Purchased Chemicals

California Water Service Company									
Selma									
Purchased Chemicals									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 16.38	\$ 16.34	\$ 16.64
Last year							\$ 14.70	\$ 14.70	\$ 14.70
3-year average							\$ 13.39	\$ 13.39	\$ 13.39
5-year average							\$ 13.17	\$ 13.17	\$ 13.17
3-year regression							\$ 18.11	\$ 20.47	\$ 22.83
5-year regression							\$ 14.46	\$ 14.89	\$ 15.32
PURCHASED CHEMICALS	\$ 18.82	\$ 14.92	\$ 10.75	\$ 9.98	\$ 15.48	\$ 14.70	\$ 12.61		



6) LABOR

Labor costs included payroll expenses, wages and salaries and overtime for district personnel. However, labor costs does not include benefits, the benefits costs are included in the General Office labor accounts. CWS capitalizes labor expenses for its districts. An historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of 8.15%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. Labor is broken down into O&M and A&G categories based on the 2005 recorded

costs for each category. CWS O&M payroll category included Operation Payroll and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage allocation of the total (100%) Operating Payroll. DRA's estimates of A&G labor for the Fiscal Year 2007-2008 are described in Chapter 4.

CWS did ask for additional staff for its Selma district in 2007. Ref Table 3-D.

Table 3-D: CWS' Request for Additional Workers

District	Selma	Selma	Selma
Year	2006	2007	2008
Personnel	None	1 Meter Reader	None

7) OPERATION PAYROLL

Operation payroll: CWS used the last recorded year (2005) as its base year for estimating the labor costs. The payroll expenses are based on the existing district's payroll levels adjusted for new employees and escalated by CWS labor inflation factors which are 3.5% for 2006—based on union contracts—and 3.5% for 2007. There is no union contract for 2008. DRA did not challenge CWS' Operation Payroll estimates for 2006, 2007 and 2008 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated \$279,900 and \$285,300 the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accept CWS' estimates of \$279,900 and \$285,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

8) POSTAGE

Postage costs are a function of postage rates, the number of customers and the number of annual mailings to each customer. CWS used the last recorded year

(2005) adjusted for inflation. CWS estimated \$25,900 and \$26,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accept CWS' estimates of \$25,900 and \$26,400 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

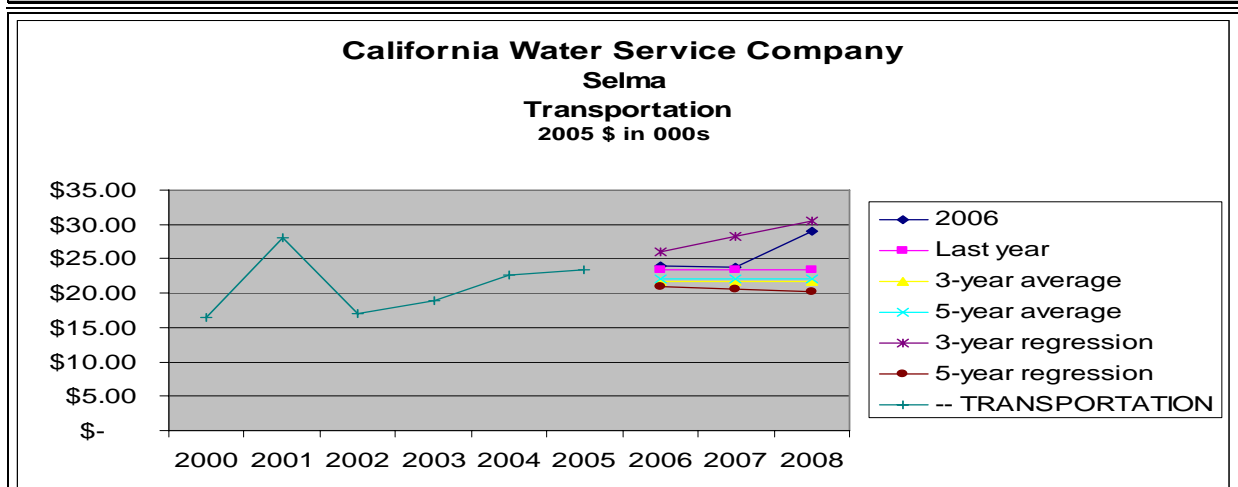
9) TRANSPORTATION

CWS estimated Transportation expenses at \$28,200 and \$28,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used the last year (2005) adjusted for inflation for its estimates. DRA computed 2006 annualized estimate is \$29,710. Ref. Table 3-E.

DRA accepts CWS' estimates of \$28,200 and \$28,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

Table 3-E: Operation Transportation

California Water Service Company									
Selma									
Transportation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Est							\$ 23.96	\$ 23.83	\$ 29.08
Last year							\$ 23.40	\$ 23.40	\$ 23.40
3-year average							\$ 21.67	\$ 21.67	\$ 21.67
5-year average							\$ 22.03	\$ 22.03	\$ 22.03
3-year regression							\$ 26.11	\$ 28.32	\$ 30.54
5-year regression							\$ 20.89	\$ 20.52	\$ 20.14
-- TRANSPORTATION	\$ 16.48	\$ 28.10	\$ 17.04	\$ 18.96	\$ 22.65	\$ 23.40	\$ 29.71		



1 **10) UNCOLLECTIBLES**

2 CWS estimated Uncollectible expense rates at 0.28% for Fiscal Years
3 2007-2008 and Fiscal Year 2008-2009 respectively.

4 DRA accept CWS methodology and CWS estimates of 0.28% for the Fiscal
5 Year 2007-2008 and the Fiscal Year 2008-2009 respectively.

6 **11) SOURCE OF SUPPLY**

7 CWS estimated Source of Supply expenses at \$100 and \$100 for Fiscal
8 Year 2007-2008 and Fiscal Year 2008-2009 respectively.

9 DRA accept CWS' estimates of, \$100 and \$100 for Fiscal Year 2007-2008
10 and Fiscal Year 2008-2009 respectively.

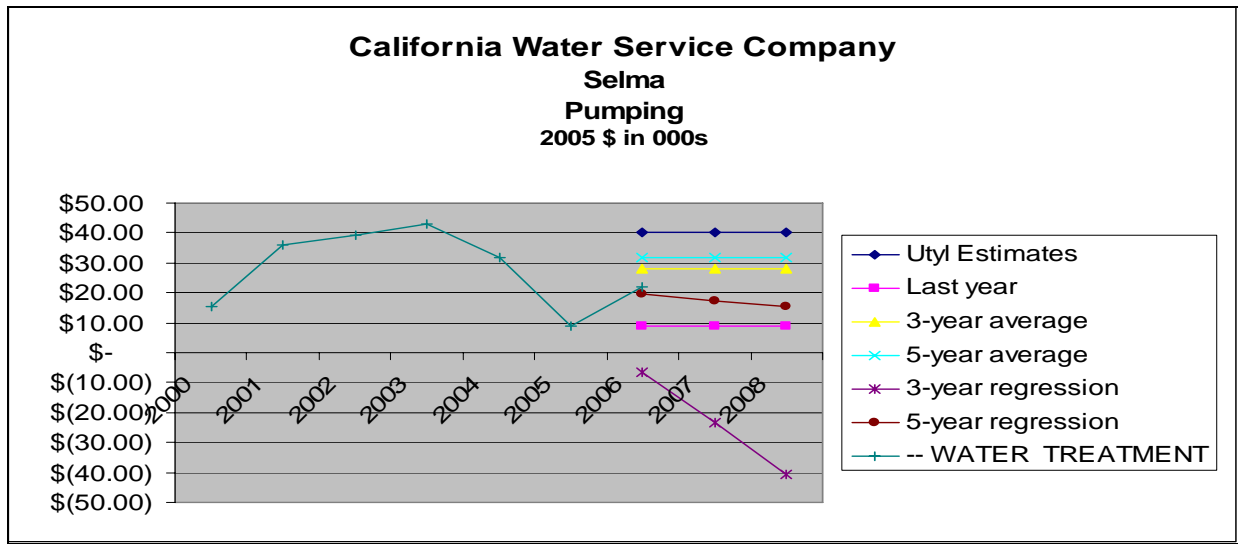
11 **12) PUMPING EXPENSES**

12 This expense category track costs of equipment, materials and other Misc.
13 pumping costs and outside services related to pumping. CWS used a 5-year
14 adjusted average to estimate the Misc. pumping costs at \$28,400 and \$28,900 for
15 Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Ref. Table 3-F.

16 DRA accepts CWS' estimates of \$28,400 and \$28,900 for Fiscal Year
17 2007-2008 and Fiscal Year 2008-2009 respectively.

18 Table 3-F: Selma Pumping Expenses

California Water Service Company									
Selma									
Pumping									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 40.10	\$ 40.07	\$ 40.07
Last year							\$ 8.90	\$ 8.90	\$ 8.90
3-year average							\$ 27.88	\$ 27.88	\$ 27.88
5-year average							\$ 31.86	\$ 31.86	\$ 31.86
3-year regression							\$ (6.36)	\$ (23.48)	\$ (40.60)
5-year regression							\$ 19.75	\$ 17.50	\$ 15.25
-- WATER TREATMENT	\$ 15.54	\$ 36.19	\$ 39.45	\$ 43.14	\$ 31.60	\$ 8.90	\$ 21.88		



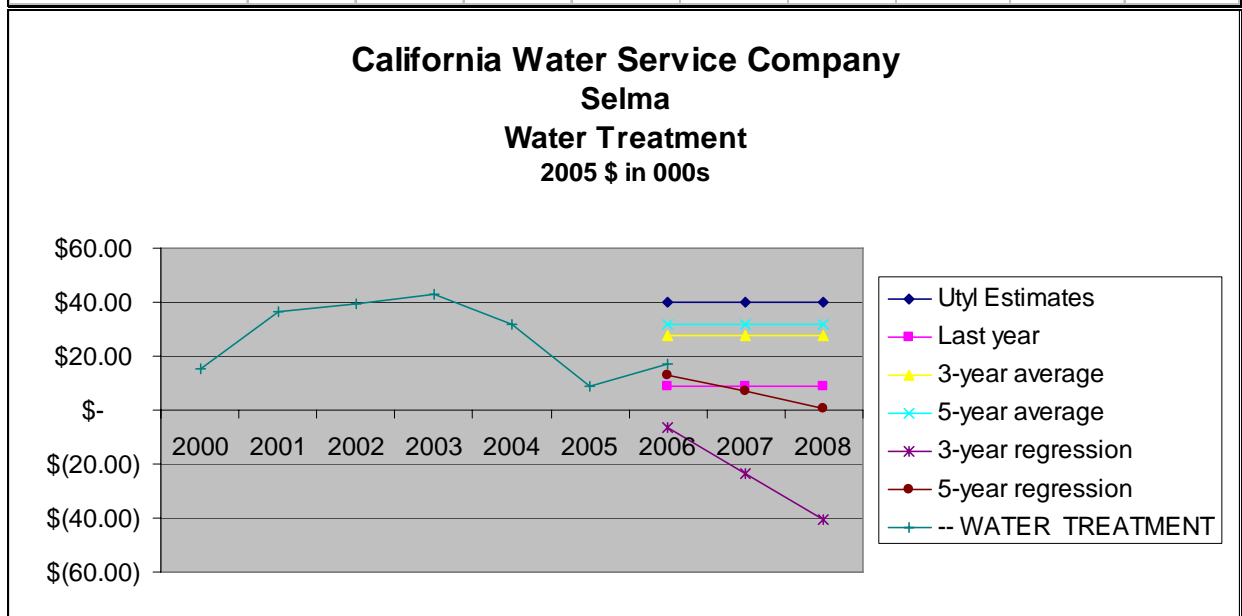
13) WATER TREATMENT

Water treatment costs tracks material, equipment maintenance, and outside services relating to the operation of treatment plant. Chemical costs are accounted for separately. CWS estimated Water Treatment expenses at \$42,600 and \$43,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA's computed annualized 2006 estimate is \$16,810; therefore DRA used the annualized amount of \$16,810 escalated for its Fiscal Year 2007-2008 estimate and adjusted that amount for the Fiscal Year 2008-2009 estimate. Ref. Table 3-G. DRA believes this is a reasonable approach and asks that its estimates of \$18,400 and \$18,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

1 Table 3-G: Selma Water Treatment Expenses

California Water Service Company									
Selma									
Water Treatment									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 40.10	\$ 40.07	\$ 40.07
Last year							\$ 8.90	\$ 8.90	\$ 8.90
3-year average							\$ 27.88	\$ 27.88	\$ 27.88
5-year average							\$ 31.86	\$ 31.86	\$ 31.86
3-year regression							\$ (6.36)	\$ (23.48)	\$ (40.60)
5-year regression							\$ 13.13	\$ 6.89	\$ 0.64
-- WATER TREATMENT	\$ 15.54	\$ 36.19	\$ 39.45	\$ 43.14	\$ 31.60	\$ 8.90	\$ 16.81		

2



3

4 **14) TRANSMISSION AND DISTRIBUTION**

5 CWS estimated Transmission and Distribution Misc. expenses for the
6 Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be \$15,700 and \$16,000
7 respectively.

8 DRA accepts CWS estimates of \$15,700 and \$16,000 for the Fiscal Year
9 2007-2008 and the Fiscal Year 2008-2009 respectively.

1 **15) CUSTOMER ACCOUNTING**

2 CWS estimated Customer Accounting expenses for the Fiscal Year 2007-
3 2008 and the Fiscal Year 2008-2009 to be \$55,000 and \$56,100 respectively.

4 DRA accept CWS' estimates of \$55,000 and \$56,100 for Fiscal Year 2007-
5 2008 and Fiscal Year 2008-2009 respectively.

6 **16) CONSERVATION**

7 Under the Memorandum of Understanding on Urban Water Conservation,
8 CWS must implement cost-effective programs when they are funded by the
9 Commission. Programs break down for conservation and estimates are based on
10 the Urban Water Management Plan. In 1991, the California Urban Water
11 Conservation Council (CUWCC) crafted a Memorandum of Understanding
12 (MOU) regarding Urban Water Conservation in California. Signatories of the
13 MOU identified 14 Best Management Practices (BMPs) for water conservation—a
14 very ambitious program.

15 However, after fifteen years, the implementation of these programs is far from
16 successful. While CWS has been a member of the CUWCC for 15 years, it has been
17 reluctant to spend money on conservation programs because these programs decrease its
18 earnings. DRA's policy, however, needs three items to be included in conservation
19 expenses. The first is a history of conservation expenditures. Second, DRA also needs a
20 cost-benefit analysis with a result above 1, indicating that the benefits exceed the costs.
21 And, finally, DRA needs the benefits included in the utility's RO model. CWS does not
22 have a history of spending all of its authorized funds on conservation programs. In the
23 Selma District CWS has spent an average of \$2,700 on conservation programs in the
24 recorded years 2001-2005. DRA's calculated 2006 annualized amount is \$6,230. CWS is
25 requesting \$37,900 in 2006 conservation expenses. This is 608.5% over the annualized
26 amount of \$6,230. It should also be pointed out that although CWS provided cost benefit
27 analysis on some BMPs, CWS did not include any conservation benefits in its RO model

but is requesting \$37,900 and \$38,600 in its conservation expenses without providing a single dollar in benefits to the ratepayers.

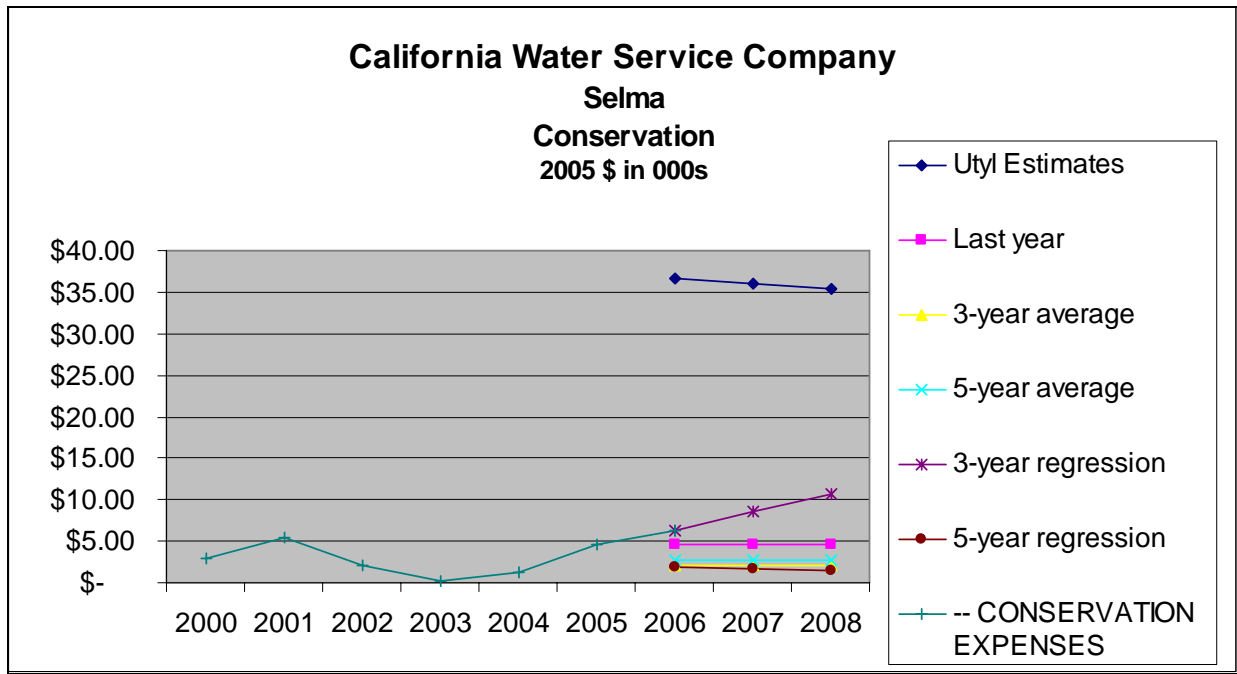
CWS CONSERVATION PROGRAM

CWS' request to receive 1.5% of its gross revenue for conservation lacks historical support. There is no basis for these increases over DRA's computed annualized amount of \$6,230. Therefore, DRA used its computed 2006 annualized amount calculating the Fiscal Years 2007-2008 and Fiscal Year 2008-2009 amount of \$6,800 and \$6,900 respectively.

Because of reasons given above, DRA ask that its estimates of \$6,800 and \$6,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-H Conservation Expenses

California Water Service Company									
Selma									
Conservation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 36.64	\$ 36.00	\$ 35.34
Last year							\$ 4.60	\$ 4.60	\$ 4.60
3-year average							\$ 1.99	\$ 1.99	\$ 1.99
5-year average							\$ 2.69	\$ 2.69	\$ 2.69
3-year regression							\$ 6.37	\$ 8.56	\$ 10.75
5-year regression							\$ 1.92	\$ 1.67	\$ 1.41
-- CONSERVATION EXPENSES	\$ 2.92	\$ 5.43	\$ 2.06	\$ 0.22	\$ 1.16	\$ 4.60	\$ 6.23		



1

2 **17) MAINTENANCE: PAYROLL**

3 ORA did not challenge CWS' Maintenance Payroll estimates for the Fiscal
4 Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated \$44,200 and \$45,000
5 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

6 DRA accept CWS estimates of, \$44,200 and \$45,000 for the Fiscal Year
7 2007-2008 and Fiscal Year 2008-2009 respectively.

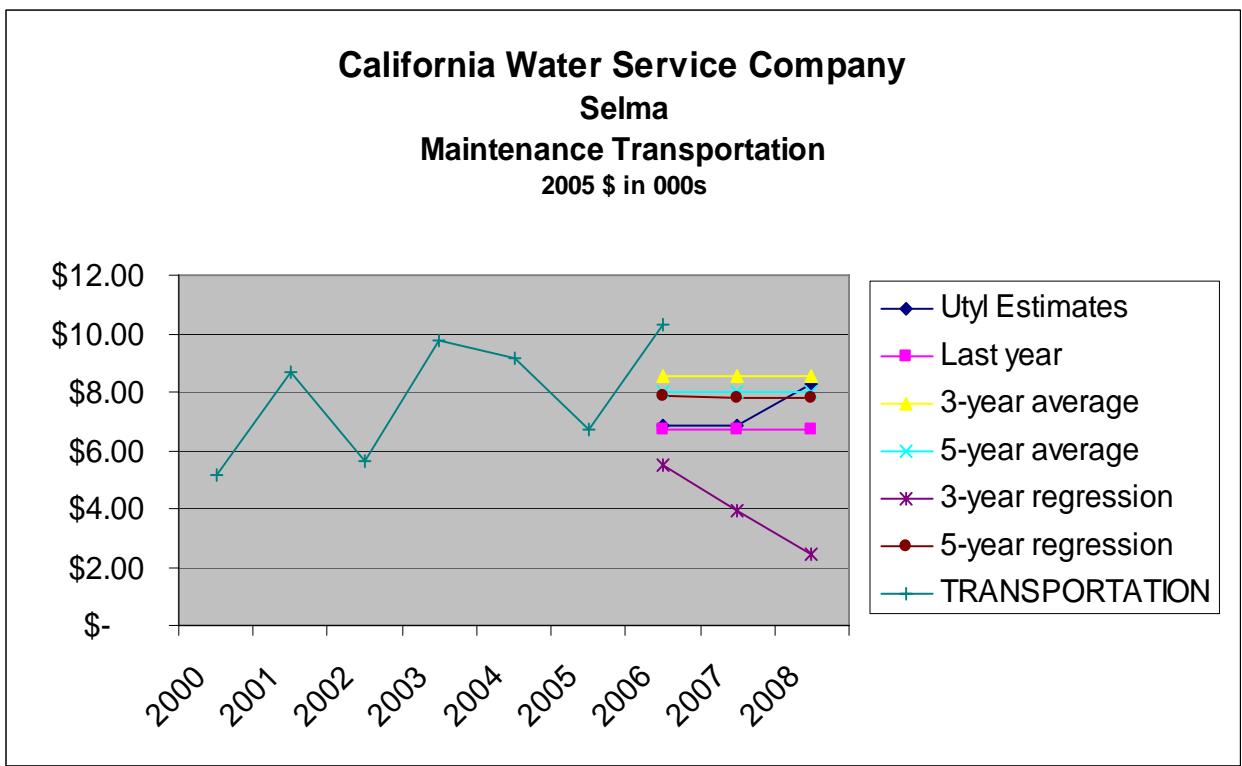
8 **18) MAINTENANCE: TRANSPORTATION**

9 CWS estimated \$8,100 and \$8,300 for the Fiscal Year 2007-2008 and
10 Fiscal Year 2008-2009 respectively.

11 DRA accepts CWS' estimates of \$8,100 and \$8,300 for the Fiscal Year
12 2007-2008 and Fiscal Year 2008-2009 respectively. Ref. table 3-J

1 Table 3-J: Maintenance Transportation

California Water Service Company									
Selma									
Maintenance Transportation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 6.86	\$ 6.84	\$ 8.29
Last year							\$ 6.70	\$ 6.70	\$ 6.70
3-year average							\$ 8.54	\$ 8.54	\$ 8.54
5-year average							\$ 7.98	\$ 7.98	\$ 7.98
3-year regression							\$ 5.48	\$ 3.95	\$ 2.42
5-year regression							\$ 7.87	\$ 7.83	\$ 7.79
TRANSPORTATION	\$ 5.14	\$ 8.67	\$ 5.60	\$ 9.76	\$ 9.16	\$ 6.70	\$ 10.29		



4 **19) MAINTENANCE: STORES**

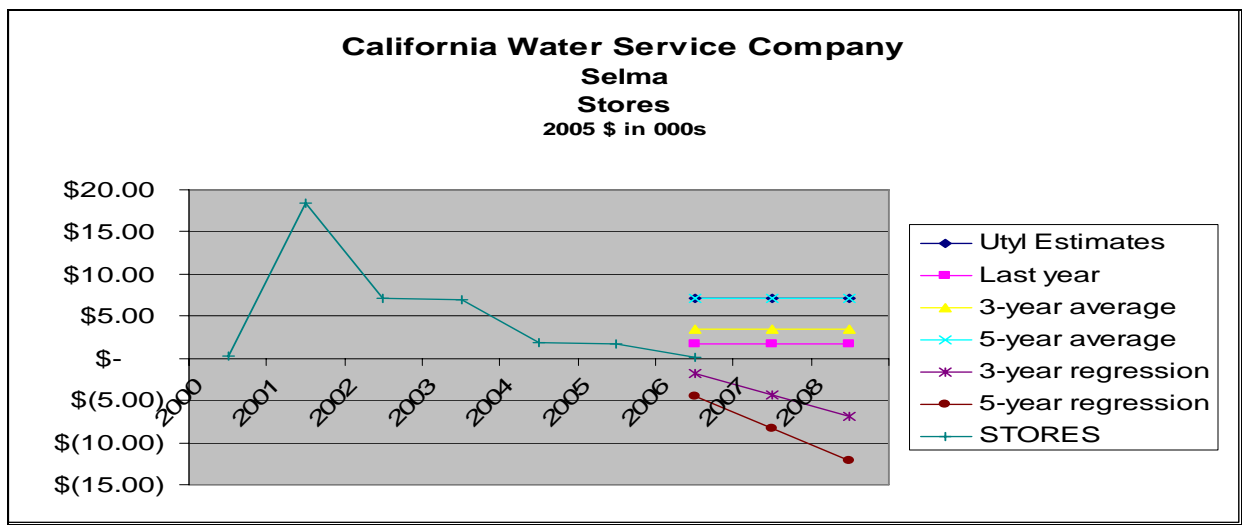
5 CWS estimated Stores expenses at \$7,700 and \$7,800 for Fiscal Year 2007-
6 2008 and Fiscal Year 2008-2009 respectively.

7 DRA believes there is no basis for these increases, therefore DRA used the
8 computed 2006 annualized (\$140) amount in estimating Fiscal Year 2007-2008
9 and adjusted that amount for inflation to estimate the Fiscal Year 2008-2009; ref.

table 3-K. DRA estimated \$200 and \$200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively; using the computed 2006 annualized amount in estimating Fiscal Year 2007-2008. DRA ask that its estimates of \$200 and \$200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-K: Maintenance Stores

California Water Service Company									
Selma									
Maintenance Stores									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 7.15	\$ 7.12	\$ 7.08
Last year							\$ 1.70	\$ 1.70	\$ 1.70
3-year average							\$ 3.46	\$ 3.46	\$ 3.46
5-year average							\$ 7.17	\$ 7.17	\$ 7.17
3-year regression							\$ (1.72)	\$ (4.31)	\$ (6.90)
5-year regression							\$ (4.43)	\$ (8.30)	\$ (12.16)
STORES	\$ 0.23	\$ 18.38	\$ 7.09	\$ 6.88	\$ 1.79	\$ 1.70	\$ 0.14		



20) MAINTENANCE: CONTRACTED MAINTENANCE

Contracted Maintenance only includes services and supplies provided by outside contractors for the maintenance of the district facilities. This category includes, without limitation, services related to:

- a. Raising Valve Casings
- b. Repairing Fire Hydrants
- c. Repairing Reservoirs

- 1 d. Painting Water Tanks
- 2 e. Sealing Field Yard Pavement
- 3 f. Painting and Repairing Building Interiors

4 CWS estimated Contracted Maintenance expenses at \$50,200 and \$51,200
5 using 5-year inflation adjusted average for Fiscal Year 2007-2008 and Fiscal Year
6 2008-2009 respectively.

7 DRA accepts CWS' estimates of \$50,200 and \$51,200 for Fiscal Year
8 2007-2008 and Fiscal Year 2008-2009 respectively.

9 **D. CONCLUSION**

10 Table 3-1 reflects the reasonableness of DRA methodology and analysis of
11 CWS O&M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR		2007 - 2008		CWS exceeds DRA	
Item	DRA	CWS	Amount	%	
(Thousands of \$)					
<u>At present rates</u>					
Operating Revenues	2,773.2	2,879.4			
Uncollectible rate	<u>0.27101%</u>	<u>0.27101%</u>			
Uncollectibles	7.5	7.8	0.3	3.8%	
<u>Operation Expenses</u>					
Purchased Water	0.0	0.0	0.0	0.0%	
Replenishment Assessment	0.0	0.0	0.0	0.0%	
Groundwater Extraction Charges	13.6	13.6	0.0	0.0%	
Purchased Power	339.7	351.4	11.7	3.4%	
Purchased Chemicals	16.1	17.6	1.5	9.3%	
Payroll	279.9	279.9	0.0	0.0%	
Postage	25.9	25.9	0.0	0.0%	
Transportation	28.2	28.2	0.0	0.0%	
Uncollectibles	7.5	7.8	0.3	3.8%	
Source of Supply	0.1	0.1	0.0	0.0%	
Pumping	28.4	28.4	0.0	0.0%	
Water Treatment	18.4	42.8	24.4	132.6%	
Transmission & Distribution	15.7	15.7	0.0	0.0%	
Customer Accounting	55.0	55.0	0.0	0.0%	
Conservation	6.8	37.9	31.1	457.4%	
Total Operation Expenses	<u>835.3</u>	<u>904.2</u>	<u>68.9</u>	<u>8.2%</u>	
<u>Maintenance Expenses</u>					
Payroll	44.2	44.2	0.0	0.0%	
Transportation	8.1	8.1	0.0	0.0%	
Stores	0.2	7.7	7.5	3750.0%	
Contracted Maintenance	<u>50.2</u>	<u>50.2</u>	<u>0.0</u>	<u>0.0%</u>	
Total Maintenance Expense	<u>102.7</u>	<u>110.2</u>	<u>7.5</u>	<u>7.3%</u>	
Total O & M Expenses (incl uncoll)	938.0	1,014.3	76.3	8.1%	
<u>At proposed rates</u>					
Operating Revenues	3,752.4	3,898.4			
Uncollectible rate	<u>0.27101%</u>	<u>0.27101%</u>			
Uncollectibles	<u>10.2</u>	<u>10.6</u>			
1 Total O & M Expenses (incl uncoll)	940.7	1,017.1	76.4	8.1%	

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations for California Water Service Company's A & G expenses including Payroll, Transportation Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization of Limited Term Investments, and Dues and Donations Adjustments. All of DRA's estimates are in Nominal Dollars. A comparison of total expense estimates for Fiscal Years 2007- 2008, is presented in Table 4 - 1.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is \$188,800 for Fiscal Year 2007-2008. Cal Water's estimate for the same time period is \$182,800, or 3.2% less than DRA's. DRA's estimated total for A&G expenses is \$194,700 for Fiscal Year 2008 – 2009. Cal Water's estimate for the same time period is \$192,500, or 1.1% less than DRA's.

C. DISCUSSION

DRA conducted independent analysis of CWS' work papers and methods of estimating the Administration & General expenses. DRA accepted the company's allocation factors for A&G payroll. Other DRA witnesses recommended increasing the intangible plant portion of this district's expenses for the years 2006 through 2008. Therefore, DRA's estimate of Amortization of Limited Term Investment (\$22,600) is higher than CWS' estimate (\$16,600) for Test Year 2007-2008. Concerning the Extended Service Protection (ESP) which was included as the Administrative Charges Transferred, DRA adjusted it based upon the fact that CWS used 2005 numbers for Residential Metered and Flat Rate hookups. DRA decided to use Metered and Flat Rate forecasted residential hookups for 2006, because it reflects more recent data.

1 DRA's analysis of CWS estimates for the Fiscal Year 2007-2008 included
2 a five year trending analysis of the company's historical expenses which were
3 compared to the company's requested dollar amounts for Fiscal Years 2007-2008,
4 and 2008-2009. This was done to ascertain the reasonableness of the company's
5 request. All DRA's estimates are in Nominal Dollars. DRA reviewed and agrees
6 with all other CWS' estimates.

7 The inflation factors used by DRA are recommended by the
8 Commission's DRA Energy Cost of Service Branch (ECOS), which has
9 traditionally handled inflation issues for the Commissions. These factors were
10 provided in a memorandum from ECOS dated August 31st, 2006. The Labor
11 escalation factors are the Consumer Price index for all Urban Consumers (CPI-U).
12 The Non-Labor escalation factors are generated from a composite index of 10
13 Wholesale Price indexes for material and supply expenses, and the CPI-U
14 weighted 5% for services and consumer related items. The 60/40 factor is a
15 composite index derived from weighting 60 percent Non-Labor and 40 percent for
16 the Compensation per Hour Index. These indices are derived from monthly DRI-
17 WEFA publication, "U.S. Economic Outlook." The above indices and weightings
18 are in conformance with an agreement reached between the Commission's Water
19 Division and the California Water Association under the new rate case plan
20 adopted in D.04-06-018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS

Year	Compensation per hour Non-Farm Rate:		Inflation Rates (%)				Composite Rates % 40/60 Split	
	Calender	Fiscal	Calender		Fiscal		Calendar	Fiscal
	Annual % Changes:	Annual % Changes:	Non- Labor	Labor	Non Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2
1998	5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001	2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002	2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003	4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0	1.7	--	--	1.6	--

1

2

3

D. CONCLUSION

4

DRA recommends the Commission adopt DRA's numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Oper. Rev. less uncoll.	2,765.7	2,871.6		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	112.4	112.4	0.0	0.0%
Transportation Expenses	7.2	7.2	0.0	0.0%
Rent	20.2	20.2	0.0	0.0%
Admin Charges Trsf	(1.0)	(0.9)	0.1	-10.0%
Nonspecifics	27.4	27.4	0.0	0.0%
Amort of Limited Term Inv.	22.6	16.6	-6.0	-26.5%
Dues & Donations Adjustment	0.0	0.0	0.0	0.0%
Total A & G Expenses (incl. local Fran.)	188.8 188.8	182.8 182.8	-6.0 -6.0	-3.2% -3.2%
<u>At proposed rates</u>				
Oper. Rev. less uncoll.	3,742.2	3,887.8		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses (incl. local Fran.)	188.8 188.8	182.8 182.8	-6.0 (6.0)	-3.2% -3.2%

1 **CHAPTER 5: TAXES OTHER THAN INCOME**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analysis and recommendations of Taxes
4 Other Than Income for CWS for Fiscal Years 2007 – 2008. Taxes Other Than
5 Income include ad valorem tax (property tax), business licenses, franchise, and
6 payroll taxes. Ad valorem taxes are property taxes paid on net utility plant.
7 Payroll taxes generally include social security tax, Federal Insurance Contribution
8 ACT (FICA) tax consisting of Old Age Benefits and Medicare, Federal
9 Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

10 DRA’s and CWS’ estimates of Taxes Other Than Income for Fiscal
11 Years 2007-2008 are included in Table 5-1.

12 **B. SUMMARY OF RECOMMENDATIONS**

13 DRA agrees with the methodology that CWS proposes using to
14 determine the estimated expenses for fiscal year 2007-2008, and 2008-2009 for ad
15 valorem taxes. Additional differences in taxes or fees are due to differences
16 between DRA and CWS’ estimates of plant additions. A comparison of DRA’s
17 and the company’s estimates is shown in Table 5-1.

18 **C. CONCLUSION**

19 For Ad Valorem Taxes, the differences between DRA and CWS numbers
20 are attributable to the differences in Plant estimates. DRA recommends the
21 Commission adopt its numbers for this district. See Table 5-1.

TABLE 5-1
CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Ad Valorem taxes	60.0	83.4	23.4	39.0%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	29.1	29.1	0.0	0.0%
Business License (pres rates)	0.7	0.7	0.0	0.0%
Business License (prop rates)	0.7	0.7	0.0	0.0%
Taxes other than income (present rates)	89.8	113.2	23.4	26.1%
Taxes other than income (proposed rates)	89.8	113.2	23.4	26.1%
State Tax Depreciation	626.5	802.2	175.7	28.0%
Transp. Dep. Adj.	(15.9)	(15.9)	0.0	0.0%
State Tax Deduct(pres rates)	610.6	786.3	175.7	28.8%
State Tax Deduct(prop rates)	610.6	786.3	175.7	28.8%
Federal Tax Depreciation	342.3	438.3	96.0	28.0%
State Income Tax	8.6	8.6	0.0	0.0%
Transp. Dep. Adj.	(15.9)	(15.9)	0.0	0.0%
Pre. Stock Div. Credit	0.8	0.8	0.0	0.0%
Am. Jobs Act Deduction	7.1	7.1	0.0	0.0%
Fed. Tax Deduct.(pres rates)	335.8	431.8	96.0	28.6%
Fed. Tax Deduct.(prop rates)	354.5	450.5	96.0	27.1%

1 **CHAPTER 6: INCOME TAXES**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis of Income Taxes for the Selma
4 District of California Water Service Company. Tables 6-1 and 6-2 compare in
5 detail DRA’s and CWS’ tax deductions and taxes estimates for the Fiscal Year
6 2007 – 2008.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 DRA agrees with the methods CWS used to calculate Income Tax. DRA’s
9 lower O&M expenses, A&G expenses, Prorated Expenses, and interest
10 calculations have made a difference in the final tax estimates. The differences are
11 due to difference in Operation and Maintenance expenses, A&G expenses,
12 prorated expenses, and the capitalized interest.

13 **C. DISCUSSION**

14 The tax deductions and credits in this proceeding were calculated in
15 accordance with the normalization requirements of the Economic Recovery Act of
16 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility
17 Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates.
18 Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been
19 estimated and included into the general rate case in accordance with the
20 requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-
21 028 dated December 9, 1987 and Decision 88-01-061 dated January 28, 1988.

22 Some of the provisions of TRA 86 have been incorporated into California
23 Corporation Franchise Tax (CCFT) law in the California Bank and Corporation
24 Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).
25 The provisions have been estimated and integrated into the CCFT calculations for
26 this general rate case.

1 DRA calculated tax depreciation for state and federal income tax purposes
2 by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant
3 to CWS' tax depreciation estimate. This methodology will be tried up when a
4 Commission decision is issued in this case.

5 To calculate the interest deduction, DRA used its ratebase and multiplied it
6 by the weighted cost of debt, whereas CWS reduced the ratebase by working cash
7 before multiplying by the weighted cost of debt. DRA followed the policy
8 outlined in D.03-12-040. Working cash is a part of ratebase, and therefore, should
9 be considered when calculating the deduction for interest on debt during the
10 calculation of income taxes.

11 Decision 89-11-058 issued on November 22, 1989 requires that for
12 ratemaking purposes the prior year's CFFT should be used in the calculation of
13 Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax
14 (FIT). The tax requirements of that decision have been incorporated in this
15 general rate case by both DRA and CWS. The prior year's CCFT was used as a
16 deduction in arriving at the Fiscal Year 2007-2008 and the escalation Year 2008-
17 2009 estimated FIT.

18 Corporations may deduct dividends paid on special preferred stock issues
19 or issues made to redeem such preferred stock. The Preferred Stock Dividend
20 Credit tax deduction is reflected in DRA's calculations.

21 CWS has also applied the tax incentive on production from the American Job
22 Creation Act of 2003 on CWS table 7-C. DRA agrees.

23

TABLE 6-1
CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	2,773.2	2,879.4	106.2	3.8%
Deductions:				
O & M expenses	938.0	1,014.3	76.3	8.1%
A & G expenses	188.8	182.8	(6.0)	-3.2%
G. O. Prorated expenses	523.4	551.8	28.4	5.4%
Taxes not on Income	89.8	113.2	23.4	26.1%
Transportation Deprec Adj	(15.9)	(15.9)	0.0	0.0%
Interest	172.2	269.7	97.5	56.6%
Income before taxes	876.9	763.5	(113.4)	-12.9%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(626.5)	(802.2)	-175.7	28.0%
Taxable income for CCFT	250.4	(38.7)	(289.1)	-115.5%
CCFT Rate	8.84%	8.84%		
CCFT	22.1	(3.4)	(25.6)	-115.5%
Addl. Tax .06% per D.84-05-036	0.0	0.0	0.0	0.0%
Adjusted CCFT	22.1	(3.4)	(25.6)	-115.5%
<u>Federal Income Tax</u>				
Tax Depreciation	342.3	438.3	96.0	28.0%
State Corp Franch Tax	8.6	8.6	0.0	0.0%
Pref Stock Dividend Credit	0.8	0.8	0.0	0.0%
Am. Jobs Act Deduction	7.1	7.1	0.0	0.0%
Taxable income for FIT	518.1	308.7	(209.4)	-40.4%
FIT Rate	35.00%	35.00%		
FIT	181.3	108.0	(73.3)	-40.4%
Total FIT & CCFT	203.5	104.6	(98.8)	-48.6%

TABLE 6-2
CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	3,752.4	3,898.4	146.0	3.9%
Deductions:				
O & M expenses	940.7	1,017.1	76.4	8.1%
A & G expenses	188.8	182.8	(6.0)	-3.2%
G. O. Prorated expenses	523.4	551.8	28.4	5.4%
Taxes not on Income	89.8	113.2	23.4	26.1%
Transportation Deprec Adj	(15.9)	(15.9)	0.0	0.0%
Interest	172.2	269.7	97.5	56.6%
Income before taxes	1,853.4	1,779.7	(73.7)	-4.0%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(626.5)	(802.2)	-175.7	28.0%
Taxable income for CCFT	1,226.9	977.5	(249.4)	-20.3%
CCFT Rate	8.84%	8.84%		
CCFT	108.5	86.4	(22.0)	-20.3%
Addl. Tax .06% per D.84-05-036	0.0	0.0	0.0	0.0%
Adjusted CCFT	108.5	86.4	(22.0)	-20.3%
<u>Federal Income Tax</u>				
Tax Depreciation	342.3	438.3	96.0	28.0%
State Corp Franch Tax	27.3	27.3	0.0	0.0%
Pref Stock Dividend Credit	0.8	0.8	0.0	0.0%
Am. Jobs Act Deduction	7.1	7.1	0.0	0.0%
Taxable income for FIT	1,475.9	1,306.2	(169.7)	-11.5%
FIT Rate	35.00%	35.00%		
FIT	516.6	457.2	(59.4)	-11.5%
Total FIT & CCFT	625.0	543.6	(81.4)	-13.0%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA's and CWS' estimates for Plant in Service for the test year 2007-2008 and the escalation year 2008 - 2009 are shown in Tables 7-1 and 7-2 at the end of this chapter.

DRA reviewed and analyzed CWS' testimony, application, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS' estimates of specific and non-specific plant additions are attributed to the items as tabulated on Page 7-2.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for six specific projects in 2006 be adjusted or deferred to 2007 or the next general rate case, 2) plant additions for five specific projects in 2007 be disallowed, covered under an advice letter or deferred to 2008, 3) plant additions for three specific projects in 2008 be deferred to the next general rate case, and 4) plant additions for non-specifics in 2006 through 2008 be adjusted as described in Section C below. Based on these recommendations, DRA's estimates for the years 2006, 2007 and 2008 plant additions are \$464,340, \$421,340 and \$302,650 respectively versus CWS' proposed amounts of \$2,416,900, \$2,993,500 and \$1,594,700 respectively for the same years.

Recommended Plant Addition Adjustments

<u>Item No.</u>	<u>Project Number and Description</u>	<u>CWS</u>	<u>DRA</u>
1	12276 Purchase property for new well site, Station 22-01	\$108,000	Defer to 2007
2	7086 Drill & Equip New Well at Station 17-02	\$789,500	Defer to 2007
3	14672 New 12 inch main from Shaft Ave. to Mitchell Ave	\$704,600	Defer to 2007
4	12560 Hydraulic model of distribution system	\$75,000	Defer to next GRC
5	N/A Small meter replacements	\$27,400	\$15,300
6	12563 Water supply & facilities master plan	\$225,000	Defer to next GRC
7	13929 New Well Site	\$189,000	Disallow
8	15186 New Well Site	\$189,000	Defer to 2008
9	14673 Drill & Equip New Well at Station 22-01	\$894,500	Defer to 2008
10	13828 New storage tank and booster at Station 20-01	\$1,360,800	Advice letter
11	14992 New vehicle for additional employee	\$25,900	Disallow
12	15511 Land for new well	\$229,000	Defer to next GRC
13	15512 Land for new well	\$229,000	Defer to next GRC
14	15193/15194 Drill & Equip New Well at unknown location	\$896,500	Defer to next GRC
15	N/A Non specific capital budget for 2006	\$151,800	\$113,440
16	N/A Non specific capital budget for 2007	\$163,700	\$116,840
17	N/A Non specific capital budget for 2008	\$176,900	\$120,350

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2

C. DISCUSSION

3

1) Project 12276 – Purchase property for future well at Station 22-01

4

CWS proposed \$108,000 in plant addition for this specific project in 2006

5

without showing any detailed cost breakdown even though the total amount is over

6

\$100,000. In its justification for the project, CWS cited rapid customer growth in

7

2005 with 406 services added and felt that this trend will be the norm for the

8

future. CWS has performed calculations covering all its districts which showed

9

that, on average, a new well is needed for every 500 to 600 new services. Also

1 CWS indicated that they would purchase the property through a qualified real
2 estate agent who would guide the appraisal of the property. DRA reviewed the
3 CWS justification and disagreed with the company on the pace of growth in this
4 district in the near future. This is based on a finding by the DRA witness who
5 worked on the revenue portion of the general rate case. The revenue witness has
6 forecasted a future growth equal to only about half of what CWS has forecasted
7 due to the housing market cooling down rapidly in the central valley region of
8 California. DRA sent Data Request CTL-3 in July 2006 to CWS asking the
9 company to provide a detailed cost breakdown to support the proposed amount
10 and to indicate the progress status of this proposed specific project since it is
11 targeted for completion in 2006. In its response, CWS provided a summary of
12 appraisal for the well site which DRA reviewed and found the proposed amount to
13 be reasonable. In the progress report of all the 2006 capital projects, CWS did not
14 list this project at all, leading DRA to believe that this project would not be
15 completed in 2006 but rather in 2007 instead. Therefore DRA recommends that
16 the proposed amount of \$108,000 for a piece of property for a new well be
17 deferred to 2007 for plant addition in that year.

18 **2) Project 7086 – Drill and equip new well at Station 17-02**

19 CWS proposed \$789,500 in plant addition for this specific project in 2006
20 and showed a detailed cost breakdown to support the total amount. DRA reviewed
21 the justification provided by CWS and agreed with the company on the need for
22 this specific project to meet increased demand due to growth. DRA sent Data
23 Request CTL-3 in July 2006 to CWS asking the company to indicate the progress
24 status of this proposed specific project since it is targeted for completion in 2006.
25 In its response, CWS indicated that no dollar has been spent on this project so far
26 and no firm construction bids have been secured yet. CWS did not list this project
27 at all in their 2006 capital budget progress report, leading DRA to believe that this
28 project would not be completed in 2006 but rather in 2007. In the review of the

1 detailed cost breakdown, DRA found that CWS has applied a standard 15%
2 contingency to all line items in this project, making the final cost of the project
3 uncertain in the absence of a firm contractor's bid at this time. However, DRA
4 considers that the 15% contingency is excessive since the construction of this
5 project is only a year from now. DRA believes that a standard 10% contingency is
6 more reasonable. Therefore DRA recommends that this project be deferred to
7 2007 and CWS would file an advice letter capped at \$750,000 to recover the
8 actual costs incurred after the project is completed and put into service.

9 **3) Project 14672 – New 12 inch main from Shaft Ave. to Mitchell Ave.**

10 CWS proposed \$704,600 in plant addition for this specific project in 2006
11 and showed a detailed cost breakdown to support the total amount. DRA reviewed
12 the justification provided by CWS and agreed with the company on the need for
13 this specific project to accommodate a new well at Station 17. The new main
14 would transport the water produced at the new well at an acceptable velocity
15 between three to five feet per second and would meet AWWA standards. DRA
16 sent Data Request CTL-3 in July 2006 to CWS asking the company to indicate the
17 progress status of this proposed specific project since it is targeted for completion
18 in 2006. In its response, CWS indicated that only \$4,000 has been spent on this
19 project so far and apparently no firm construction bids have been secured yet. In
20 the review of the detailed cost breakdown, DRA found that CWS has applied a
21 contingency of \$50,000 in this project, making the final cost of the project
22 uncertain in the absence of a firm contractor's bid at this time. As mentioned in the
23 paragraph above, since the new well at Station 17 would be deferred to 2007,
24 DRA believed that the same holds true for this project which is needed after the
25 new well is in service. Therefore DRA recommends that this project be deferred to
26 2007 and CWS would file an advice letter capped at \$704,600 to recover the
27 actual costs incurred after the project is completed and put into service.

1 **4) Project 12560/12563 – Hydraulic model & facilities master plan**

2 CWS proposed \$75,000 and \$225,000 in plant additions for these two
3 specific projects in 2006 without showing detailed cost breakdowns to support
4 the total amount. In the justification for the projects, CWS cited the potential of
5 extremely rapid growth in housing that would double the population in the next
6 five years and then double again in the following ten years. DRA reviewed the
7 CWS justification and disagreed with the company on the pace of growth in this
8 district in the near future. This is based on a finding by the DRA witness who
9 worked on the revenue portion of the general rate case. The revenue witness has
10 forecasted a future growth equal to only about half of what CWS has forecasted
11 due to the housing market cooling down rapidly in the central valley region of
12 California. In October 2006 DRA sent Data Request CTL-7 to CWS asking the
13 company to provide a cost benefit analysis of these projects and to show a detailed
14 cost breakdown to support the proposed amounts. In its response to the DRA data
15 request, CWS discussed about the benefits in terms of efficiency and reliability but
16 did not directly address how these projects would benefit the ratepayers. DRA
17 considered this reply from CWS as not being responsive and believed that there is
18 no urgency for CWS to pursue these two projects in this general rate case.
19 Therefore DRA recommends that they be deferred to the next general rate case in
20 the total amount of \$300,000 when CWS has an opportunity to demonstrate that
21 these projects have direct benefits to the ratepayers in this district and that the
22 benefits outweigh the costs.

23 **5) Replace 133 small meters (Routine)**

24 CWS proposed \$27,400 in plant addition for this specific project in 2006
25 without showing a detailed cost breakdown. When DRA asked CWS to explain
26 why 133 small meters need to be replaced in 2006 in Data Request CTL-3 in July
27 2006, CWS did not address the question asked by DRA. In its review of the
28 similar small meter replacement program for the years 2007 and 2008, DRA found

1 that only 88 small meters would be replaced at a cost of \$15,300 in each of these
2 years. In the absence of an explanation by CWS, DRA believes that it is more
3 reasonable to allow the same number of small meter replacement in 2006 as in
4 2007 and 2008. Therefore DRA recommends that the proposed amount of \$27,400
5 be adjusted to \$15,300 for plant addition in 2006.

6 **6) Project 13929 – New well site**

7 CWS proposed \$189,000 in plant addition for this specific project in 2007
8 without showing a detailed cost breakdown to support the total amount even
9 though DRA's master data request calls for one when the cost estimate of any
10 project exceeds \$100,000. In its brief justification for this project, CWS indicated
11 that this well site would be for a new well under Project 15190 in 2008. DRA
12 reviewed all the capital projects proposed by CWS in 2008 but could not find
13 Project 15190 at all. Since the new well is non-existent in 2008, DRA concluded
14 that this new well site would not be needed in 2007. Therefore DRA recommends
15 that the proposed amount of \$189,000 under this project be disallowed for plant
16 addition in 2007.

17 **7) Project 15186 – New well site**

18 CWS proposed \$189,000 in plant addition for this specific project in 2007
19 without showing a detailed cost breakdown to support the proposed amount even
20 though DRA's master data request calls for one when the cost estimate of any
21 project exceeds \$100,000. CWS provided a brief justification for this project
22 saying that this well site would be for a new well under Project 15193 in 2008.
23 DRA sent Data Request CTL-3 in July 2006 to CWS asking the company to
24 provide a detailed cost breakdown to support the proposed amount. In its response
25 to the DRA data request dated August 14, 2006, CWS indicated that there is no
26 additional cost information to provide at this time but did refer DRA to a property
27 appraisal dated June 20, 2006 for another similar well site in Selma. DRA

1 reviewed the appraisal and found that the market value of the property was set at
2 \$119,000. Since CWS has no other details to support the proposed amount of
3 \$189,000, DRA concluded that it would be more reasonable to use the appraised
4 amount of \$119,000 based on the opinion of a real estate professional. For reasons
5 explained below, the new well under Project 15193 would be deferred from 2008
6 to the next general rate case. It follows that this project can be deferred from 2007
7 to 2008 as a well site is needed just one year ahead of a new well. Therefore DRA
8 recommends that this specific project be deferred to 2008 for plant addition at an
9 adjusted amount of \$119,000.

10 **8) Projects 14673 – Drill and equip new well at Station 22-01**

11 CWS proposed \$894,500 in plant addition for this specific project in 2007
12 and showed a detailed cost breakdown to support the total amount. DRA reviewed
13 the justification provided by CWS and agreed with the company in principle on
14 the need for this specific project to meet increased demand due to growth.
15 However, since the new well under Project 7086 is being deferred from 2006 to
16 2007 as mentioned earlier and DRA's forecast of the pace of growth in the near
17 future in this district would be only half of what CWS has forecasted, DRA
18 believed that it is more reasonable to defer this project from 2007 to 2008 since
19 there is no urgency to complete this project in 2007. DRA also reviewed the
20 detailed cost breakdown and found that the total amount consists of four parts – (a)
21 Pump-house and site improvements estimated at \$191,000, (b) Drilling of well
22 estimated at \$390,000, (c) Mechanical equipment estimated at \$127,300 and (d)
23 Electrical equipment estimated at \$186,100. For each of these four partial
24 estimates, CWS has applied a 20% contingency factor, making the final cost of
25 this project uncertain in the absence of a firm contractor bid at this time. However,
26 DRA considers that the 20% contingency is excessive since the construction of
27 this project is only two years from now. DRA believes that a 15% contingency is
28 more reasonable. Therefore DRA recommends that this project be deferred to

1 2008 and CWS would file an advice letter capped at \$850,000 to recover the
2 actual costs incurred after the project is completed and put into service.

3 **9) Project 13828 – New storage tank and booster at Station 20-01**

4 CWS proposed \$1,360,800 in plant addition for this specific project in 2007
5 and showed a detailed cost breakdown to support the total amount. DRA reviewed
6 the justification provided by CWS and agreed with the company on the need for
7 this specific project to meet demand and storage requirements as outlined in the
8 water system analysis dated May 17, 2006 and in accordance with AWWA
9 guidelines to achieve an acceptable system safety factor. CWS indicated that
10 currently there is only one storage tank in the entire district so the addition of a
11 second tank in the system would allow one tank to be shut down for maintenance
12 or repair. DRA also reviewed the detailed cost breakdown and found that the total
13 amount consists of three parts – (a) Construction of the 1.0 million gallon tank
14 estimated at \$1,106,100, (b) Mechanical pumping equipment estimated at
15 \$210,100 and (c) Electrical pumping equipment estimated at \$44,600. For each of
16 these three partial estimates, CWS has applied a 20% contingency factor, making
17 the final cost of this project uncertain in the absence of a firm contractor bid at this
18 time. However, DRA considers that the 20% contingency is excessive since the
19 construction of this project is only a year from now. DRA believes that a standard
20 10% contingency is more reasonable. Therefore DRA recommends that CWS file
21 an advice letter in 2007 capped at the amount of \$1,225,000 to recover the actual
22 costs incurred after the project is completed and put into service.

23 **10) Project 14992 – New vehicle for additional employee**

24 CWS proposed \$25,900 in plant addition for this specific project in 2007
25 saying that the company plans to hire an additional employee who will need
26 transportation to perform work in the field. DRA consulted with its own witness
27 who was working on the operation and maintenance expenses in this district to see

1 if an additional employee would be allowed in 2007. The expense witness advised
2 that no additional employee was considered necessary for this district in this
3 general rate case. Therefore DRA recommends that the proposed amount of
4 \$25,900 under this project be disallowed for plant addition in 2007.

5 **11) Project 15511/15512 – Two new well sites at unknown locations**

6 CWS proposed \$229,000 in plant addition for each of these two specific
7 projects in 2008 without showing exact locations for these properties or a detailed
8 cost breakdown to support the proposed amount even though DRA's master data
9 request calls for one when the cost estimate of any project exceeds \$100,000. In its
10 brief justification for the projects, CWS cited rapid customer growth in 2005 with
11 406 services added and felt that this trend will be the norm for the future. CWS
12 has performed calculations covering all its districts which showed that, on
13 average, a new well is needed for every 500 to 600 new services. DRA reviewed
14 the CWS justification and disagreed with the company on the pace of growth in
15 this district in the near future. This is based on a finding by the DRA witness who
16 worked on the revenue portion of the general rate case. The revenue witness has
17 forecasted a future growth equal to only about half of what CWS has forecasted
18 due to the housing market cooling down rapidly in the central valley region of
19 California. Also in the review of past budgeted versus actual capital expenditures
20 for this district from 2001 to 2005, DRA found that CWS has consistently spent
21 less than budgeted in each of those years. It seems that there has been a tendency
22 for CWS to propose more projects than they could actually accomplish in this
23 district. With a new well and a new main at Station 17 and a new storage tank and
24 booster at Station 20 to be completed in 2007, followed by another new well at
25 Station 22 to be completed in 2008, CWS already has a lot of major capital
26 projects to accomplish in this general rate case. DRA believed that there is no
27 urgency for CWS to complete these projects in 2008 with a slower than the

1 expected growth in the next few years. Therefore DRA recommends that these two
2 projects for new well sites in 2008 be deferred to the next general rate case.

3 **12) Project 15193/15194 – Drill and equip new well at unknown**
4 **location**

5 CWS proposed \$896,500 in plant addition for this specific project in 2008
6 without showing an exact location for the new well or a detailed cost breakdown
7 to support the proposed amount even though DRA's master data request calls for
8 one when the cost estimate of any project exceeds \$100,000. In its brief
9 justification for the project, CWS cited rapid customer growth in 2005 with 406
10 services added and felt that this trend will be the norm for the future. CWS has
11 performed calculations covering all its districts which showed that, on average, a
12 new well is needed for every 500 to 600 new services. DRA reviewed the CWS
13 justification and disagreed with the company on the pace of growth in this district
14 in the near future. This is based on a finding by the DRA witness who worked on
15 the revenue portion of the general rate case. The revenue witness has forecasted a
16 future growth equal to only about half of what CWS has forecasted due to the
17 housing market cooling down rapidly in the central valley region of California.
18 Also in the review of past budgeted versus actual capital expenditures for this
19 district from 2001 to 2005, DRA found that CWS has consistently spent less than
20 budgeted in each of those years. It seems that there has been a tendency for CWS
21 to propose more projects than they could actually accomplish in this district. With
22 a new well and a new main at Station 17 and a new storage tank and booster at
23 Station 20 to be completed in 2007, followed by another new well at Station 22 to
24 be completed in 2008, CWS already has a lot of major capital projects to
25 accomplish in this general rate case. DRA believed that there is no urgency for
26 CWS to complete this project in 2008 with a slower than the expected growth in
27 the next few years. Therefore DRA recommends that this project for a new well in
28 2008 be deferred to the next general rate case.

1 **13) Non-specific Capital Budgets, 2006 to 2008**

2 CWS proposed \$151,800, \$163,700 and \$176,900 respectively in plant
3 additions for non-specifics in the three years from 2006 to 2008. DRA reviewed
4 CWS' methodology and found that CWS has used a rather complex four step
5 trending method to come up with their estimates, using recorded data for inflation
6 and company wide growth factors. In its response to DRA data request, CWS
7 submitted actual expenditures for non-specifics in the last ten years. DRA
8 reviewed the information and found that the actual expenditure was higher than
9 the budgeted amount in some years but lower than the budgeted amount in the
10 other years. By nature, non-specifics are work to be done based on unforeseen
11 conditions or emergencies and as such, they are very difficult to predict accurately
12 in advance. DRA believed that it would be more reasonable to use the average of
13 the actual expenditures in those past ten years for 2006, adjusted for inflation for
14 2007 and 2008 (using the latest factors published by DRA). Based on this
15 approach, DRA recommends that the allowable non-specific capital budgets for
16 2006 to 2008 be \$113,440, \$116,840 and \$120,350 respectively.

17 **D. CONCLUSION**

18 DRA's recommendations have been incorporated in the calculations for
19 DRA's recommended Rate Base as shown in Table 9-1 and Table 9-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

PLANT IN SERVICE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	15,829.0	17,797.2	1,968.2	12.4%
Additions				
Gross Additions	464.5	3,016.4	2,551.9	549.4%
Capitalized Interest	7.7	55.1	47.4	612.1%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	<u>(15.7)</u>	<u>(15.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	456.5	3,055.8	2,599.3	569.3%
Plant in Service - EOY	16,285.5	20,853.0	4,567.5	28.0%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	16,285.5	20,853.0	4,567.5	28.0%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	16,285.5	20,853.0	4,567.5	28.0%
Additions				
Gross Additions	345.8	1,617.6	1,271.8	367.8%
Capitalized Interest	5.7	29.3	23.6	418.5%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	<u>(15.7)</u>	<u>(15.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	335.8	1,631.2	1,295.4	385.8%
Plant in Service - EOY	16,621.3	22,484.2	5,862.9	35.3%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	16,621.3	22,484.2	5,862.9	35.3%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expense for Selma District. The tables at the end of the chapter provide DRA's and CWS estimates for Depreciation Reserve and Expense for Test Year 2007-2008 and Escalation Year 2008-2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for fiscal year 2007-2008 and Escalation Year 2008-2009. Differences between DRA and CWS are due to different plant additions.

C. DISCUSSION

As part of its review, DRA compared the values reported in the GRC application with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite rate of 2.46% for depreciation accrual¹ based on a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. The difference between CWS' and DRA's estimates is related to different recommended plant additions.

D. CONCLUSION

DRA reviews and accepts the CWS methodology.

¹ CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	4,123.2	4,123.2	0.0	0.0%
Accruals				
Transportation Equipment	13.3	13.3	0.0	0.0%
Contributed Plant	33.7	33.7	0.0	0.0%
Other Plant in Service	329.2	377.6	48.4	14.7%
Total Accruals	376.2	424.6	48.4	12.9%
Retirements	(19.9)	(19.9)	0.0	0.0%
Depreciation Reserve - EOY	4,479.5	4,527.9	48.4	1.1%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	4,479.5	4,527.9	48.4	1.1%

1

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	4,479.5	4,527.9	48.4	1.1%
Accruals				
Transportation Equipment	16.1	16.1	0.0	0.0%
Contributed Plant	34.3	34.3	0.0	0.0%
Other Plant in Service	327.7	440.1	112.4	34.3%
Total Accruals	378.1	490.5	112.4	29.7%
Retirements	(19.9)	(19.9)	0.0	0.0%
Depreciation Reserve - EOY	4,837.7	4,998.5	160.8	3.3%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	4,837.7	4,998.5	160.8	3.3%

CHAPTER 9: RATEBASE

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of rate base for the Selma District. Tables 9-1 and 9-2 at the end of this report compare DRA's and CWS's estimates. Differences are due to different estimates of plant additions, working cash allowances, Contributions, and taxes on Contributions in Aid of Construction.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for the Selma District as follows in Table 9-A below:

Table 9-A
California Water Service Company
Selma District
Weighted Average Rate Base Summary

	DRA Wtg. Avg Ratebase (\$000)	CWS Wtg. Avg. Ratebase (\$000)	CWS Exceeds DRA Amount By (\$000)	CWS Exceeds DRA Amount By %
2007-2008	\$6,227.2	\$10,865.5	\$4,638.3	74.5%
2008-2009	\$5,824.1	\$11,651.4	\$5,827.3	100.1%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for Selma District.

1 **C. DISCUSSION**

2 **1) Materials and Supplies**

3 CWS proposed \$33,400 for materials and supplies based on a weighted
4 average. DRA concurs with the CWS estimate.

5 **2) Working Cash Allowance**

6 In the previous GRC, CWS had not updated its lead/lag studies since the
7 late 1980s. CWS managers had indicated to DRA that a project was underway to
8 update the lead/lag study. CWS provided the new lead/lag study with the
9 workpapers during this GRC application. DRA reviewed the new lead/lag study
10 and noted that it is comprehensive and well-documented.

11 CWS produced a lead/lag calculation of working cash that indicates a
12 positive working cash allowance of \$40,700 for test year 2007-2008 and \$43,600
13 for escalation year 2008-2009. DRA disagrees with some of the expenses
14 included in the lead/lag calculation and recommends some adjustments to CWS'
15 lead/lag calculation and the estimated working cash allowance. DRA recommends
16 a negative working cash allowance of \$16,300 for Test Year 2007-2008 and a
17 negative working cash allowance of \$18,900 for Escalation Year 2008-2009.

18 DRA estimates different lag days than CWS for several of the CWS
19 expenses such as ad valorem taxes, state corporation franchise tax, and federal
20 income tax. DRA calculated the average lag days for ad valorem taxes at 70.5
21 days instead of the 40 days estimated by CWS. DRA estimated the lag days for
22 State corporation franchise tax and federal income tax to be 93 days. In D.03-09-
23 021 which determined General Office expenditures, CWS and DRA agreed that 93
24 lag days fairly represents the timing and amount of taxes paid². DRA

² CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

1 recommends using 93 days rather than the 37.0 days and 40.9 days, respectively,
2 estimated by CWS.

3 **3) Net to Gross Multiplier**

4 The net-to-gross multiplier represents the change in gross revenue required
5 to produce a unit change in net revenue. DRA recommends that the net-to-gross
6 multipliers shown in the table below be applied in developing the revenue
7 requirement change calculation for the test year 2007-2008. CWS and DRA used
8 the same methodology to calculate the net-to-gross multiplier.

9 **Table 9-B**
10 **California Water Service Company**
11 **Selma District**
12 **Net to Gross Multipliers**
13

DRA Net to Gross Multiplier	CWS Net to Gross Multiplier
1.78547	1.78547

14

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Serv.	16,285.5	20,853.0	4,567.5	28.0%
Materials & Supplies	33.4	33.4	0.0	0.0%
Working Cash - Lead-Lag	(16.3)	40.7	57.0	-350.4%
Amt withheld from Employees	(1.0)	(1.0)	0.0	0.0%
Wtd. Avg. Depr. Res.	(4,479.5)	(4,527.9)	(48.4)	1.1%
Advances	3,976.7	3,976.7	0.0	0.0%
Contributions	1,156.6	1,088.9	(67.7)	-5.9%
Reserved Amort.Intangibles	53.0	53.0	0.0	0.0%
Deferred Taxes	1,290.7	1,290.7	0.0	0.0%
Unamortized ITC	24.8	24.8	0.0	0.0%
General Office Alloc	300.8	300.8	0.0	0.0%
Taxes on - Advances	511.6	511.6	0.0	0.0%
Taxes on - CIAC	94.4	88.9	(5.5)	-5.9%
Average Rate Base	6,227.2	10,865.5	4,638.3	74.5%
Interest Calculation:				
Avg Rate Base less work cash	6,227.2	10,792.4	4,565.2	73.3%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0%
Interest Expense	180.0	311.9	131.9	73.3%
less Cap. Interest	(7.7)	(42.2)	(34.5)	445.4%
Net Interest Expense	172.2	269.7	97.5	56.6%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Service	16,621.3	22,484.2	5,862.9	35.3%
Material & Supplies	33.4	33.4	0.0	0.0%
Working Cash - Lead-Lag	(18.9)	43.6	62.5	-330.5%
Amt withheld from Employees	(1.0)	(1.0)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(4,837.7)	(4,998.5)	(160.8)	3.3%
Advances	4,271.4	4,271.4	0.0	0.0%
Contributions	1,149.5	1,081.8	(67.7)	-5.9%
Reserved Amort.Intangibles	53.0	53.0	0.0	0.0%
Deferred Taxes	1,383.7	1,383.7	0.0	0.0%
Unamortized ITC	23.7	23.7	0.0	0.0%
General Office Alloc	310.6	310.6	0.0	0.0%
Taxes on - Advances	512.5	512.5	0.0	0.0%
Taxes on - CIAC	85.2	80.2	(5.0)	-5.9%
Average Rate Base	5,824.1	11,651.4	5,827.3	100.1%
Interest Calculation:				
Avg Rate Base less work cash	5,824.1	11,575.5	5,751.4	98.8%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	168.3	334.5	166.2	98.8%
less Cap. Interest	(5.7)	(16.5)	(10.8)	192.0%
Net Interest Expense	162.7	318.0	155.4	95.5%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
SELMA DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.27101%	0.27101%
2) 1-Uncoll (100%-line 1)	99.72899%	99.72899%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.27101%	0.27101%
8) 1-Subtotal (100%-line7)	99.72899%	99.72899%
9) CCFT (line 8 * 8.84%)	8.81604%	8.81604%
10) FIT (line 8 * 35%)	34.90515%	34.90515%
11) Total taxes paid (ln 7+ln 9+ln 10)	43.99220%	43.99220%
12) Net after taxes (1-line 11)	56.00780%	56.00780%

Net-to-Gross Multiplier (1/line 12) =	1.78547 (DRA)
Net-to-Gross Multiplier (1/line 12) =	1.78547 (Utility)

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CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on customer service.

B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in Selma District satisfactory after reviewing CWS filings and responses to DRA data request.

C. DISCUSSION

Table 10A presents a summary of CWS customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of total number of customers in the Selma district.

Table 10-A
Selma Customer Service Complaints

<u>Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
Taste and Odor	5	7	6	7	2	0
Color	0	0	0	2	5	0
Turbidity	1	1	2	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	2	4	4	0	2	0
Illness-Waterborne	0	0	0	0	0	0
Air	n/a	n/a	n/a	n/a	n/a	0
Leaks	n/a	n/a	n/a	n/a	n/a	0
Other	9	4	1	1	0	1
Total	17	16	13	10	9	1
No. of Customers	5,251	5,393	5,563	5,693	5,870	6,121
Total as % of Customers	0.32%	0.30%	0.23%	0.18%	0.15%	0.02%

*Up to October 2006

*N/A- Data Not Available

1 CWS' records indicate that the numbers of service complaints are low relative to
2 the number of customers in the district.

3 **D. CONCLUSION**

4 DRA recommends that the Commission finds CWS' customer service to be
5 satisfactory.

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CHAPTER 11: RATE DESIGN

A. INTRODUCTION

This Chapter sets forth DRA’s analysis and recommendations on rate design for CWS’ rate increase application for its Selma District. The present rates for CWS in their application became effective on February 21, 2006. The proposed rates are those found in CWS’ workpapers.

CWS currently provides water service in its Selma District under the following schedules:

- SL-1 General Metered Service
- SL-2R Residential Flat Rate Service
- SL-4 Service to Privately Owned Fire Protection Systems

B. SUMMARY OF RECOMMENDATIONS

CWS proposes to design rates for General Metered Service to recover 50 percent of the fixed costs through the service charge and the remainder through increasing quantity rates. The method for General Metered Service meets the requirements set forth in Decision D.86-05-064. CWS proposes to use the Service Charge ratios from CWS’ 1991 general rate case filings. DRA does not object to these ratios. However, DRA’s proposed rates differ from CWS’ because of different recommended revenue requirements.

CWS’ other rate change request involves implementation of a tiered rate structure (increasing block rates) along with a Water Revenue Adjustment Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared its analysis of rate design with the understanding that CWS’ current GRC would be divided into two phases with the second phase addressing CWS’ requests for

1 increasing block rates, WRAM and FCBA. CWS subsequently submitted a
2 compliance filing A.06-10-026, requesting the Commission to address these
3 issues. CWS submitted its compliance filing on October 26, 2006. Consequently,
4 in this report, DRA addresses rate design from CWS' approved rate design and
5 defers addressing increasing block rates, WRAM and FCBA to the compliance
6 filing. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume the
7 absence of WRAM and FCBA and a rate design that recovers 50 percent of the
8 fixed costs through the service charge and the remainder through a single quantity
9 rate.

10 **C. DISCUSSION**

11 Concerning Privately Owned Fire Protection Service, CWS proposes to
12 continue charging for Privately Owned Fire Protection Service according to the
13 size of the connection. DRA finds this approach reasonable because the proposed
14 rates are consistent with rates approved for other CWS' districts. DRA's proposed
15 rates will differ from CWS' because DRA recommends a different revenue
16 requirement.

17 **D. CONCLUSION**

18 As the vast majority of CWS' proposed rate design will be addressed in the
19 compliance filing, DRA concludes that for this general rate case, it would be
20 prudent for the Commission to adopt the CWS rate design from its last GRC.
21 Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the
22 adopted rates will differ from CWS' because DRA recommends a different
23 revenue requirement. DRA recommends the Commission adopt rates for CWS
24 based on DRA's revenue requirement.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on the special requests made by CWS for the Selma District.

B. SUMMARY OF RECOMMENDATIONS

(a) *CWS requests a finding from the Commission that the district provides water service that meets or exceeds state and federal drinking water standards and General Order 103 (Exhibit F, page 2).*

CWS presented the following summary for the water quality situation in this District:

The Selma water system is served by fourteen groundwater sources. The only treatment in place in the Selma system is a single activated carbon vessel used to treat contaminants. Service life of the carbon is about two years. Chlorine is added for disinfection.

DRA has thoroughly reviewed the latest Department of Health Services (DHS) annual inspection report and the cover letter included in Exhibit F, Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs at CWS. DRA found that CWS has covered the following three important aspects of water quality in detail to show that: 1) The Selma District has not exceeded any MCL (maximum contaminant level) or deviated from accepted water quality procedures since the last general rate case. 2) This district has not been cited by DHS since the last general rate case. 3) This district has complied with all federal and state drinking water standards.

DRA also contacted DHS in writing directly in early October 2006 asking the responsible engineers in that agency who have expertise in water quality to review and to indicate any concerns they may have regarding the water quality

1 report for this district as submitted by CWS dated July 2006. DRA did not receive
2 any negative comments from DHS by the end of October 2006.

3 CWS has made a thorough water quality presentation for this district in
4 this proceeding. CWS has made substantial progress in improving water quality in
5 this district. DRA agrees that CWS has complied with applicable water quality
6 standards in this district during the most recent three-year period.

7 (b) The Water Revenue Adjustment Mechanism is excluded from
8 the scope of this proceeding.

9 (c) The offset rate increase to reflect the General Office allocation
10 request is excluded from the scope of this proceeding.

11 (d) **CWS is requesting an early, *ex parte* order to update Rule 15**
12 **to increase the water supply special facilities fee in this district. (Exhibit E,**
13 **page 5).**

14 DRA recommends that CWS' Selma District's requested Contributions in
15 Aid of Construction (CIAC) for 2007, 2008, and 2009, should be forecasted at a
16 net increase of \$94,860 for each of the three forward looking years, or \$284,580
17 for the three year period in total. This equates to a recommended decrease of
18 \$305,280 to forecasted rate base for the period 2007 through 2009. DRA further
19 recommends that CWS' request for Advances for Construction in the amount of
20 \$294,700 for each of the three forward looking years be granted. For Selma
21 District's lot fees, DRA recommends a forecasted amount of \$2,310 rather than
22 the requested amount of \$1,000 for 150 connections, rather than 299 connections
23 and be reflected as part of Advances for Construction, as ordered by D. 05-12-020,
24 dated December 2005.

25 (i) For Selma District, CWS forecasts small decreases to
26 its recorded CIAC as for the three year period 2007 to 2009, in the amounts of

1 \$6,500, \$7,100, and \$7,100 respectively. DRA reviewed CWS' requested
2 decreases to its CIAC in comparison to its recorded information with respect to
3 mains, wells, tanks, and other storage. The results of DRA's review shows that
4 CWS incurred an average annual increase of \$234,117 for main extension
5 agreement contracts. CWS did not add any new wells, but did reflect an increase
6 in tanks and storage as well as mains. Specifically, for the base line year of 2005,
7 CWS reflected an increase of \$407,392 for tanks and storage, and an increase of
8 \$334,331 for distribution mains. In light of the above described increase in the
9 most recent recorded year of 2005, DRA recommends that CWS forecast an
10 increase to its forecasted CIAC in the amount of \$94,860 for each of the three
11 forward looking years, 2007 through 2009. This represents an average of what the
12 recorded net increases were for the 5 year historical period. DRA's
13 recommendation represents an adjustment of \$305,280, which translates into a
14 decrease to forecasted rate base of \$305,280 for the 3 year period 2007 through
15 2009.

16 (ii) For its Advances for Construction account, CWS
17 requests an increase of \$294,700 for each of the three forward looking years, 2007
18 through 2009. DRA reviewed and examined CWS' recorded information with
19 respect to wells, tanks, and mains for the record period, 2001 through 2005. For
20 the 5 year period, CWS booked an average increase for main extensions of
21 \$234,117. CWS drilled no wells for growth, and showed somewhat steady
22 increases in customers served by main extensions. CWS' above request of
23 \$294,700 for Advances for each of the three forward looking years is reasonable.

24 (iii) DRA recommends an amount of \$2,310 per lot for 150
25 new connections, which equates to \$346,500 in lot fees. DRA's recommendation
26 is based on the CWS' forecasted cost of approximately \$2,310 on a per customer
27 basis for the addition of one new well. DRA is of the opinion that the \$2,310 is a
28 more realistic forecast for lot fees. In the same vein DRA recommends growth in

1 the amount of 150 new connections rather than CWS' request of 299 connections.
2 Moreover, DRA recommends that the lot fees of \$346,500 be included in
3 Advances for Construction. The recommended treatment of such fees is in
4 accordance with what was adopted for the Apple Valley Ranchos Water Company
5 in D. 05-12-020. Specifically D. 05-12-020 states that the cost of all necessary
6 facilities, including wells, tanks, and treatment facilities, when clearly attributable
7 to new customers, should be recovered in the facilities charge, and not imposed on
8 the existing customer base.

9 **(e) CWS requests to amortize its purchased water and pump tax**
10 **balancing accounts in compliance with ordering paragraph 3 of D. 06-04-037.**

11 As of June 30, 2006 the balancing accounts included in CWS' Exhibit I
12 shows an over collection of \$15,168 or 0.54% of the annual revenue. DRA
13 reviewed and agreed that the balancing accounts should be amortized.

14 Ordering paragraph 3 of D. 06-04-037 stated that "Class A water utilities
15 shall report on the status of their balancing accounts in their general rate cases and
16 shall propose adjustments to their rates in that context to amortize under-or over-
17 collections in those accounts subject to reasonableness review. They also may
18 propose such rate adjustments by advice letter at any time that the under-or over-
19 collection in any such account exceeds two percent (2%) of annual revenues for
20 the utility or a ratemaking district of the utility."

21 CWS' request to amortize its purchased water and pump tax balancing
22 accounts in this rate case is in compliance with ordering paragraph 3 of D. 06-04-
23 037.

1 **(f) CWS requests to phase-in the first year revenue requirement**
2 **over the three years of the rate cycle.**

3 CWS is requesting to phase-in the rate increase over the three-year rate case
4 cycle so that an average residential customer's increase is not greater than 5.9%
5 each year compared to the requested increase of 18.8% in the test year if the
6 revenue requirement is not phased-in.

7 DRA does not find the need for a phased-in rate increase because DRA's
8 proposed increase is only 3.3% above the current rates in the Selma District.
9 Therefore, there will not be a large rate increase that would cause customer rate
10 shock. The DRA proposed increase is not large enough to warrant a phasing-in of
11 rates for the residential customers.

12 CWS states its requested rate increase is based on water supply facilities
13 constructed in advance of growth. CWS anticipates significant growth in the
14 Selma District in the next ten years and has budgeted and planned facilities to
15 meet this increased demand. CWS proposes to spread its increase of 18.8% over
16 three years, or 5.9% per year. This would then increase the monthly residential
17 customer bill by \$1.64 in 2007, \$1.74 in 2008, and \$1.84 in 2009.

18 After DRA analyzed all aspects of this rate case, including anticipated
19 customer growth, DRA does not agree with the amount of new connections that
20 CWS anticipates in Selma for this three-year rate cycle. CWS estimates there will
21 be 300 new residential connections each year for 2006, 2007, and 2008. DRA
22 based its projection of 150 new connections per year on a five-year recorded
23 average. CWS also provided in a data request response that the number of new
24 connections for 2006, as of the end of August, was 94. This is annualized to 140
25 for 2006, or about half of what CWS expected for 2006.

1 CWS says the estimated increase in new residential customers is due to
2 subdivision developments in progress in the service area. However, DRA believes
3 the much publicized slow down in home sales and building in California has also
4 affected Fresno County. The City of Selma has seen a decrease in the number of
5 new homes built in 2006 and the number of permits requested by builders. The
6 slow down in housing could continue for several years and will affect what actual
7 water supply facilities will be necessary for the Selma service district.

8 DRA has concluded that proposed rates would only increase slightly, not
9 enough to warrant changing the regular way of instituting rates as defined in
10 Standard Practice U-7-W, Rate Design for Water and Sewer System Utilities
11 Including Master Metered Facilities, and Decision 86-05-064 which established
12 water rate design currently being followed.

13 Furthermore, the Commission's definition of rate shock is 50% or greater.
14 Neither CWS proposed rate increase of 5.9% nor DRA's proposed rate increase of
15 3.3% is considered rate shock. DRA considers CWS' request moot.

1 **CHAPTER 13: ESCALATION YEAR INCREASES**

2 **A. FIRST ESCALATION YEAR**

3 On or after November 5, 2007, CWS should be authorized to file an advice
4 letter, with appropriate supporting workpapers, requesting the step rate increase
5 for 2008 authorized by the Commission, or to file a lesser increase in the event
6 that the rate of return on rate base, adjusted to reflect the rates then in effect and
7 normal ratemaking adjustments for the 12 months ending September 30, 2007,
8 exceeds the lesser of (a) the rate of return found reasonable by the Commission for
9 CWS for the corresponding period in the most recent rate decision, or (b) the rate
10 of return found reasonable in this case. This filing should comply with General
11 Order 96-A. The requested step rates should be reviewed by the Commission's
12 Water Division (Division) to determine their conformity with this order, and
13 should go into effect upon the Division's determination of compliance. The
14 Division should inform the Commission if it finds that the proposed rates are not
15 in accord with this decision, and the Commission may then modify the increase.
16 The effective date of the revised tariff schedule should be no earlier than 30 days
17 after filing. The revised schedules should apply to service rendered on and after
18 their effective date. Should a rate decrease be in order, the rates should become
19 effective on the filing date.

20 **B. SECOND ESCALATION YEAR**

21 For the second year an attrition adjustment should be granted for the
22 revenue requirement increases attributable for the expense increases due to
23 inflation and rate base increases that are not offset by the increases in revenues,
24 with the revenue change to be calculated by multiplying forecasted inflation rate
25 by DRA and operational attrition plus financial attrition times adopted rate base in
26 2008 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY SELMA DISTRICT

Item	DRA 2008-09	DRA 2009-010	% increase	
	(Thousands of \$)			
Operating revenues	2,806.6	2,783.3	-0.8%	Esc. Factor
Operation & Maintenance	952.1	968.3	1.7%	1.017
Administrative & General	194.7	198.2	1.8%	1.018
G.O. Prorated Expense	558.2	567.7	1.7%	1.017
Depreciation & Amortization	327.7	333.3	1.7%	1.017
Taxes other than income	87.5	89.0	1.7%	1.017
State Corp. Franchise Tax	27.3	22.0	-19.3%	
Federal Income Tax	175.7	154.9	-11.9%	
Total operating expenses	2,323.2	2,333.3	0.4%	
Net operating revenue	483.4	449.9	-6.9%	
Rate base	5,824.1	5,421.0	-6.9%	
Return on rate base	8.30%	8.30%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
YOKE W. CHAN, P.E.**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1, 12 and portion of 13 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
VIBERT GREENE**

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4. In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS**

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEMENT T. LAN, P.E.**

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last eight years at the commission.

Q.3 Please summarize your business experience.

A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving some administrative & general expenses and operation & maintenance expenses and numerous utility plant-in-service, depreciation, and ratebase issues.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for Chapter 7 (Plant In Service) for the Bakersfield, King City, Selma, South San Francisco and Westlake districts of California Water Service Company in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE W. STEINGASS, P.E.**

- Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.
- Q2. Please summarize your education background and professional experience.
- A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.
- Q3. What is your responsibility in this proceeding?
- A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:
- Chapter 8 – Depreciation Expenses and Reserve
 - Chapter 9 – Rate Base and Net to Gross Multiplier;
- Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
KATIE LIU**

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for Chapter 10, Customer Service, for DRA's Water Branch Report for California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
TATIANA OLEA**

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over \$115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAMELA T. THOMPSON, C.P.A.**

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Pamela T Thompson and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Arts degree in Mathematics and Spanish Literature from Dominican University in San Rafael in May 1974 and a Masters of Business Administration degree in Accounting from Golden Gate University in June 1978. I am also a licensed Certified Public Accountant in the State of California.

Q.3 Please summarize your business experience.

A.3 I graduated from Dominican College with a Bachelor of Arts degree in Mathematics and Spanish Literature in 1974. I subsequently graduated in June 1978 from Golden Gate University with a Master of Business Administration degree in Accounting. I am a licensed Certified Public Accountant in the State of California. I joined the staff of the California Public Utilities Commission in August 1976. In my capacity as a Financial Examiner, I have examined the financial records of various utilities under the jurisdiction of the Commission, including gas, electric, and water utilities. I have testified numerous times before the Commission.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for portion of Chapter 12 for the Selma District in the areas of Contributions, Advances and Lot Fees in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.